

**EXHIBIT 7**

**Malhotra Deposition Transcript (July 15, 2014)**

<p style="text-align: right;">Page 1</p> <p>1</p> <p>2 UNITED STATES BANKRUPTCY COURT</p> <p>3 FOR THE EASTERN DISTRICT OF MICHIGAN</p> <p>4 - - -</p> <p>5 In Re: ) Chapter 9</p> <p>6</p> <p>7 City of Detroit, Michigan, )</p> <p>8</p> <p>9 Debtor. ) Hon. Steven Rhodes</p> <p>10 _____</p> <p>11</p> <p>12</p> <p>13</p> <p>14 The videotaped deposition of GAURAV MALHOTRA</p> <p>15 Taken at 51 Louisiana Avenue, N.E.</p> <p>16 Washington, D.C.</p> <p>17 Commencing at 9:09 a.m.</p> <p>18 Tuesday, July 15, 2014</p> <p>19 Before: Gail L. Inghram Verbano</p> <p>20 Registered Diplomate Reporter,</p> <p>21 Certified Realtime Reporter,</p> <p>22 Certified Shorthand Reporter-CA (No. 8635)</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 3</p> <p>1</p> <p>2 HEATHER J. HUBBARD, ESQ.</p> <p>3 WALLER LANSDEN DORTCH &amp; DAVIS, LLP</p> <p>4 511 Union Street, Suite 2700</p> <p>5 Nashville, Tennessee 37219</p> <p>6 Appearing on behalf of U.S. Bank.</p> <p>7</p> <p>8</p> <p>9</p> <p>10 SAM J. ALBERTS, ESQ.</p> <p>11 DENTONS US, LLP</p> <p>12 1301 K Street, N.W.</p> <p>13 Suite 600, East Tower</p> <p>14 Washington, D.C. 20005</p> <p>15 Appearing on behalf of the Retiree Committee.</p> <p>16</p> <p>17</p> <p>18</p> <p>19 DOUGLAS G. SMITH, P.C.</p> <p>20 KIRKLAND &amp; ELLIS, LLP</p> <p>21 300 North LaSalle</p> <p>22 Chicago, Illinois 60654</p> <p>23 Appearing on behalf of Syncora Guarantee, Inc.,</p> <p>24 and Syncora Capital Assurance, Inc..</p> <p>25</p>
<p style="text-align: right;">Page 2</p> <p>1</p> <p>2 APPEARANCES:</p> <p>3</p> <p>4 RONALD A. KING, ESQ.</p> <p>5 FRANK J. GUADAGNINO, ESQ. (Pittsburgh Office)</p> <p>6 CLARK HILL, PLC</p> <p>7 212 East Grand River Avenue</p> <p>8 Lansing, Michigan 48906</p> <p>9 Appearing on behalf of the Retirement Systems</p> <p>10 for the City of Detroit.</p> <p>11</p> <p>12</p> <p>13</p> <p>14 GEOFFREY S. STEWART, ESQ.,</p> <p>15 CHRISTOPHER DiPOMPEO, ESQ.,</p> <p>16 SARAH A. HUNGER, ESQ.</p> <p>17 JONES DAY</p> <p>18 51 Louisiana Avenue, N.W.</p> <p>19 Washington, D.C. 20001</p> <p>20 Appearing on behalf of the Debtor and the Witness.</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 4</p> <p>1</p> <p>2 KELLY DiBLASI, ESQ.</p> <p>3 WEIL, GOTSHAL &amp; MANGES, LLP</p> <p>4 767 Fifth Avenue</p> <p>5 New York City, New York 10153</p> <p>6 Appearing on behalf of Financial Guaranty</p> <p>7 Insurance Company.</p> <p>8</p> <p>9</p> <p>10</p> <p>11 MICHAEL BHARGAVA, ESQ.</p> <p>12 CHADBOURNE &amp; PARKE, LLP</p> <p>13 1200 New Hampshire Avenue, NW</p> <p>14 Washington, D.C. 20036</p> <p>15 Appearing on behalf of Creditor Assured</p> <p>16 Guaranty.</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>

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<p style="text-align: right;">Page 5</p> <p>1</p> <p>2 TELEPHONIC APPEARANCES:</p> <p>3</p> <p>4 DAVID NESTOR, ESQ.</p> <p>5 DAVIS POLK &amp; WARDWELL LLP</p> <p>6 450 Lexington Avenue</p> <p>7 New York, New York 10017</p> <p>8 Appearing on behalf of Merrill Lynch.</p> <p>9</p> <p>10</p> <p>11</p> <p>12 KELLEY M. HALADYNA, ESQ.</p> <p>13 DICKINSON WRIGHT, PLLC</p> <p>14 500 Woodward Avenue, Suite 4000</p> <p>15 Detroit, Michigan 48226</p> <p>16 Appearing on behalf of the State of Michigan.</p> <p>17</p> <p>18</p> <p>19</p> <p>20 E. BENTON KEATLEY, ESQ.</p> <p>21 SIDLEY AUSTIN LLP</p> <p>22 1501 K Street, N.W.</p> <p>23 Washington, DC 20005</p> <p>24 Appearing on behalf of National Public Finance</p> <p>25 Guarantee.</p>	<p style="text-align: right;">Page 7</p> <p>1</p> <p>2 C O N T E N T S</p> <p>3</p> <p>4 WITNESS: PAGE</p> <p>5 GAURAV MALHOTRA</p> <p>6 By Mr. Smith 11</p> <p>7 By Ms. DiBlasi 321</p> <p>8</p> <p>9</p> <p>10</p> <p>11 E X H I B I T S</p> <p>12 EXHIBIT DESCRIPTION PAGE</p> <p>13</p> <p>14 Malhotra-1 10-Year Financial Projection, 188</p> <p>15 PAO00706519 to 6600</p> <p>16 Malhotra-2 Fourth Amended Disclosure 199</p> <p>17 Statement</p> <p>18 Malhotra-3 Report of G. Malhotra 212</p> <p>19 Malhotra-4 Email communication, 3-14-14, 252</p> <p>20 with attachments; POA537586 to</p> <p>21 7618 (nonsequential)</p> <p>22 Malhotra-5 Operational Restructuring 254</p> <p>23 Summary</p> <p>24 Malhotra-6 Report of the Blight Removal 258</p> <p>25 Task Force</p>
<p style="text-align: right;">Page 6</p> <p>1</p> <p>2 CAROLINE TURNER ENGLISH, ESQ.</p> <p>3 ARENT FOX LLP</p> <p>4 1717 K Street, NW</p> <p>5 Washington, DC 20036-5342</p> <p>6 Appearing on behalf of Ambac Assurance</p> <p>7 Corporation.</p> <p>8</p> <p>9</p> <p>10</p> <p>11 ALSO PRESENT:</p> <p>12</p> <p>13 ADAM MILLER, Videographer</p> <p>14</p> <p>15 JOHN POPEHN, Houlihan, Lokey</p> <p>16</p> <p>17 MARGUERETTE HOSBACH, Ernst &amp; Young (Via</p> <p>18 telephone)</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 8</p> <p>1</p> <p>2 Malhotra-7 Article from Detroit News, 264</p> <p>3 "Reverse Commute May Hike Tax</p> <p>4 Bill"</p> <p>5 Malhotra-8 Memo from to Governor Snyder, 266</p> <p>6 2-19-13</p> <p>7 Malhotra-9 Executive Summary of the 285</p> <p>8 Proposal from Creditors</p> <p>9 Malhotra-10 Detroit Public Schools fiscal 314</p> <p>10 year 2015 proposed budgets</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>

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<p style="text-align: right;">Page 9</p> <p>1 MALHOTRA</p> <p>2 Washington, D.C.</p> <p>3 Tuesday, July 15, 2014; 9:09 a.m.</p> <p>4 - - -</p> <p>5 THE VIDEOGRAPHER: We are on the record</p> <p>6 at 9:09 a.m. This is the videotaped</p> <p>7 deposition of Gaurav Malhotra taken in the</p> <p>8 United States Bankruptcy Court, Eastern</p> <p>9 District of Michigan, in re: City of</p> <p>10 Detroit, Michigan, Debtor, Chapter 9, Case</p> <p>11 No. 13-53846, on Tuesday, July 15th, 2014.</p> <p>12 We are at the location of Jones Day, 51</p> <p>13 Louisiana Northwest, Washington, DC. My name</p> <p>14 is Adam Miller, the certified legal video</p> <p>15 specialist. The court reporter is Gail</p> <p>16 Verbano from Elisa Dreier Reporting Company,</p> <p>17 950 Third Avenue, 5th Floor, New York,</p> <p>18 New York.</p> <p>19 Will counsel please state their</p> <p>20 appearance and affiliation for the record.</p> <p>21 MR. SMITH: Doug Smith for Syncora.</p> <p>22 MR. STEWART: Geoffrey Stewart, Chris</p> <p>23 DiPompeo and Sarah Hunger, Jones Day, for the</p> <p>24 witness and for the City of Detroit.</p> <p>25 MR. ALBERTS: Sam J. Alberts from</p>	<p style="text-align: right;">Page 11</p> <p>1 MALHOTRA</p> <p>2 MR. KEATLEY: Benton Keatley, Sidley</p> <p>3 Austin, on behalf of National Public Finance</p> <p>4 Guarantee.</p> <p>5 MS. ENGLISH: Caroline English, Arent</p> <p>6 Fox, on behalf of Ambac Assurance</p> <p>7 Corporation.</p> <p>8 - - -</p> <p>9 GAURAV MALHOTRA, having first been duly</p> <p>10 sworn according to law, was examined and testified</p> <p>11 as follows:</p> <p>12 - - -</p> <p>13 EXAMINATION</p> <p>14 BY MR. SMITH:</p> <p>15 Q. Good morning, Mr. Malhotra. You've been</p> <p>16 deposed several times before; correct?</p> <p>17 A. That's correct.</p> <p>18 Q. So you understand I'm going to ask you a</p> <p>19 series of questions. And you'll let me know if</p> <p>20 you don't understand any of the questions;</p> <p>21 correct?</p> <p>22 A. Yes.</p> <p>23 Q. And feel free to take a break any time</p> <p>24 or whatever you need. Okay?</p> <p>25 A. Okay. Thank you.</p>
<p style="text-align: right;">Page 10</p> <p>1 MALHOTRA</p> <p>2 Dentons on behalf of the Official Committee</p> <p>3 for the Retirees.</p> <p>4 MS. HUBBARD: Heather Hubbard from</p> <p>5 Waller on behalf of US Bank.</p> <p>6 MR. KING: Ron King with Clark Hill on</p> <p>7 behalf of Detroit Retirement Systems.</p> <p>8 MR. BHARGAVA: Michael Bhargava from</p> <p>9 Chadbourne &amp; Parke on behalf of Creditor</p> <p>10 Assured Guaranty.</p> <p>11 MR. POPEHN: John Popehn from Houlihan.</p> <p>12 Lokey.</p> <p>13 MS. DiBLASI: Kelly DiBlasi, Weil,</p> <p>14 Gotshal &amp; Manges, on behalf of FGIC.</p> <p>15 MR. GUADAGNINO: Frank Guadagnino, also</p> <p>16 on behalf of the Retirement Systems.</p> <p>17 MR. STEWART: Could the lawyers on the</p> <p>18 phone please give their appearances.</p> <p>19 MS. HOSBACH: Marguerette Hosbach, Ernst</p> <p>20 &amp; Young in-house counsel.</p> <p>21 MS. HALADYNA: Kelley Haladyna of</p> <p>22 Dickinson Wright on behalf of the State of</p> <p>23 Michigan.</p> <p>24 MR. NESTOR: David Nestor, Davis Polk,</p> <p>25 on behalf of Merrill Lynch.</p>	<p style="text-align: right;">Page 12</p> <p>1 MALHOTRA</p> <p>2 Q. You know, you are working in this case</p> <p>3 as an expert in financial analysis. Is that fair?</p> <p>4 A. Yes.</p> <p>5 Q. You're not holding yourself out as an</p> <p>6 expert in urban policy; correct?</p> <p>7 A. That is correct.</p> <p>8 Q. You're not an expert in health benefits?</p> <p>9 A. That is correct.</p> <p>10 Q. Not an expert on government?</p> <p>11 A. Government what?</p> <p>12 Q. Government in general: function,</p> <p>13 operations.</p> <p>14 A. That is correct.</p> <p>15 Q. You're not an expert in tax policy?</p> <p>16 A. That is correct.</p> <p>17 Q. You're not holding yourself out as an</p> <p>18 expert in tax forecasting?</p> <p>19 A. That is correct.</p> <p>20 Q. You're not an expert on blight</p> <p>21 reduction?</p> <p>22 A. Yes, I am not.</p> <p>23 Q. Not an expert on art valuation?</p> <p>24 A. That is correct.</p> <p>25 Q. Not an expert on pensions?</p>

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<p style="text-align: right;">Page 13</p> <p>1 MALHOTRA</p> <p>2 <b>A. That is correct.</b></p> <p>3 Q. Not an expert on casinos or wagering</p> <p>4 revenue?</p> <p>5 <b>A. That is correct.</b></p> <p>6 Q. Not an expert on information technology?</p> <p>7 <b>A. Information technology in terms of what?</b></p> <p>8 Q. In terms of the systems, the type of</p> <p>9 systems, and implementing those systems and the</p> <p>10 cost of the systems.</p> <p>11 <b>A. I'm not an expert in that.</b></p> <p>12 Q. You're not an expert on transportation</p> <p>13 systems for municipalities?</p> <p>14 <b>A. That is correct.</b></p> <p>15 Q. You're not an expert in economics?</p> <p>16 <b>A. I'm not an expert in economics.</b></p> <p>17 Q. You're not an expert on accounting?</p> <p>18 <b>A. What do you mean by that?</b></p> <p>19 Q. Well, you're not a CPA, are you?</p> <p>20 <b>A. I'm not a CPA.</b></p> <p>21 Q. And you don't hold yourself out as an</p> <p>22 accounting expert, do you?</p> <p>23 <b>A. Well, in my overall financial analysis</b></p> <p>24 <b>expertise, my background in accounting and</b></p> <p>25 <b>financial analysis is a part of that. So I don't</b></p>	<p style="text-align: right;">Page 15</p> <p>1 MALHOTRA</p> <p>2 <b>the City had applied for to actually help the City</b></p> <p>3 <b>get the supporting information.</b></p> <p>4 Q. Would it be fair that your only</p> <p>5 experience with government grants is in the</p> <p>6 context with the City of Detroit?</p> <p>7 <b>A. No. I have a couple other cases where</b></p> <p>8 <b>our team has been heavily involved in terms of</b></p> <p>9 <b>evaluating some of the grant-related revenues of</b></p> <p>10 <b>other public sector entities.</b></p> <p>11 Q. Okay. So would you hold yourself out as</p> <p>12 an expert on government grants?</p> <p>13 <b>A. Government -- like I said again,</b></p> <p>14 <b>government grants is a broad topic. I can talk</b></p> <p>15 <b>about the grants specifically, how they relate to</b></p> <p>16 <b>the City of Detroit.</b></p> <p>17 Q. Okay. You're not an expert on state</p> <p>18 revenue sharing, are you?</p> <p>19 <b>A. I understand the implications for the</b></p> <p>20 <b>City of Detroit of state revenue sharing. I mean,</b></p> <p>21 <b>they're broad questions. So if you ask me</b></p> <p>22 <b>specifically about Detroit, I can be more</b></p> <p>23 <b>specific.</b></p> <p>24 Q. Well, you're not some sort of policy</p> <p>25 expert on state revenue sharing; correct?</p>
<p style="text-align: right;">Page 14</p> <p>1 MALHOTRA</p> <p>2 <b>know what you mean by I'm an expert in accounting</b></p> <p>3 <b>or not.</b></p> <p>4 Q. Have you ever been qualified as an</p> <p>5 expert in accounting in any proceeding?</p> <p>6 <b>A. I have not.</b></p> <p>7 Q. You don't -- did you do any auditing of</p> <p>8 financial statements?</p> <p>9 <b>A. I do not do auditing, no.</b></p> <p>10 Q. You're not an expert in government</p> <p>11 grants; correct?</p> <p>12 <b>A. Well, government grants is a broad</b></p> <p>13 <b>topic. What grants specifically are you talking</b></p> <p>14 <b>about?</b></p> <p>15 Q. Well, any government grants, federal or</p> <p>16 state. You're not an expert in government grants?</p> <p>17 <b>A. In what context? I mean, government</b></p> <p>18 <b>grants is a broad topic. And how they relate to</b></p> <p>19 <b>the City of Detroit, I can speak in-depth about;</b></p> <p>20 <b>but I don't know what you mean by government</b></p> <p>21 <b>grants in general.</b></p> <p>22 Q. You've never been involved in applying</p> <p>23 for a government grant?</p> <p>24 <b>A. Actually, our team helped prepare the</b></p> <p>25 <b>City for some of the fire and SAFER grants that</b></p>	<p style="text-align: right;">Page 16</p> <p>1 MALHOTRA</p> <p>2 <b>A. The policy on state revenue sharing is</b></p> <p>3 <b>generally set by the State, not the City. It's a</b></p> <p>4 <b>State-driven mechanism.</b></p> <p>5 Q. So you wouldn't hold yourself out as an</p> <p>6 expert on state revenue sharing based on your</p> <p>7 experience that you've had?</p> <p>8 <b>A. For what? For City of Detroit or just</b></p> <p>9 <b>state revenue sharing for the State of Michigan in</b></p> <p>10 <b>general?</b></p> <p>11 Q. In general.</p> <p>12 <b>A. In general, different states have</b></p> <p>13 <b>different mechanisms in terms of how State aid is</b></p> <p>14 <b>spent. So I can't talk to different states. I</b></p> <p>15 <b>can talk to how the state revenue sharing impacts</b></p> <p>16 <b>the City of Detroit and the components and the</b></p> <p>17 <b>elements of that.</b></p> <p>18 Q. Have you ever done forecasting for a</p> <p>19 city before the Detroit matter?</p> <p>20 <b>A. We were working with two other cities</b></p> <p>21 <b>right now in terms of helping them forecasting.</b></p> <p>22 Q. Which other cities are those?</p> <p>23 <b>A. Those are confidential.</b></p> <p>24 Q. I mean, just the name of the cities, you</p> <p>25 can't disclose to me?</p>

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<p style="text-align: right;">Page 17</p> <p>1 MALHOTRA</p> <p>2 <b>A. That is correct.</b></p> <p>3 Q. And what period of time have you been</p> <p>4 doing that?</p> <p>5 <b>A. One of them has been over a year. One</b></p> <p>6 <b>of them has been in the last, I would say, six</b></p> <p>7 <b>months.</b></p> <p>8 Q. Before you started your forecasting work</p> <p>9 for Detroit, you didn't have any experience doing</p> <p>10 a forecast for a city; correct?</p> <p>11 <b>A. We did it for Detroit Public Schools,</b></p> <p>12 <b>which was another large government sector --</b></p> <p>13 <b>public sector entity. We did not do it for a</b></p> <p>14 <b>city.</b></p> <p>15 Q. Okay. So before your work for the City</p> <p>16 of Detroit, you had never done forecasting for a</p> <p>17 city specifically; correct?</p> <p>18 <b>A. Most of the -- that is correct.</b></p> <p>19 Q. You're not holding yourself out as an</p> <p>20 expert on Chapter 9 bankruptcy, are you?</p> <p>21 <b>A. No, I'm not.</b></p> <p>22 Q. This is the first Chapter 9 bankruptcy</p> <p>23 you've worked on; correct?</p> <p>24 <b>A. Yes, it is.</b></p> <p>25 Q. And you'd agree with me that Chapter 9</p>	<p style="text-align: right;">Page 19</p> <p>1 MALHOTRA</p> <p>2 Q. You're not holding yourself out as an</p> <p>3 expert in risk management or insurance; correct?</p> <p>4 <b>A. Again, I'll ask the same question: Risk</b></p> <p>5 <b>management, insurance for what? Because all of</b></p> <p>6 <b>these points have specific implications on the</b></p> <p>7 <b>City of Detroit and the financial analysis and</b></p> <p>8 <b>forecasts for the City of Detroit.</b></p> <p>9 Q. Okay. Well, I mean, you've never done</p> <p>10 any work in the area of risk management, have you?</p> <p>11 <b>A. I've looked at a lot of the expenses</b></p> <p>12 <b>that the City of Detroit has been spending on risk</b></p> <p>13 <b>management insurance claims over the last three</b></p> <p>14 <b>years. So I understand where the City has been</b></p> <p>15 <b>spending that money.</b></p> <p>16 Q. Okay. Before your work for the City,</p> <p>17 you didn't -- you hadn't done any work on risk</p> <p>18 management; is that correct?</p> <p>19 <b>A. No. When it comes to specific other</b></p> <p>20 <b>clients and you see where they are spending more</b></p> <p>21 <b>and if risk management is -- or self-paying,</b></p> <p>22 <b>self-insurance claims is a big component, you have</b></p> <p>23 <b>to analyze those costs. So I have looked at them</b></p> <p>24 <b>in specific instances where claims are a large</b></p> <p>25 <b>part of a spend.</b></p>
<p style="text-align: right;">Page 18</p> <p>1 MALHOTRA</p> <p>2 bankruptcy is extremely rare?</p> <p>3 <b>A. I don't want to comment on that.</b></p> <p>4 Q. You're not going to answer that</p> <p>5 question?</p> <p>6 <b>A. Rare in context of what? Is it in</b></p> <p>7 <b>context of Chapter 11 or is it in context to other</b></p> <p>8 <b>bankruptcies? So you have to give me a relative</b></p> <p>9 <b>point to answer that question.</b></p> <p>10 Q. It's very rare for a city -- out of all</p> <p>11 the cities in the United States, it's very rare</p> <p>12 for a city to have entered into a Chapter 9;</p> <p>13 right?</p> <p>14 <b>A. Well, there are different state laws</b></p> <p>15 <b>that impact the ability of cities to enter</b></p> <p>16 <b>Chapter 9 or not. But I would say Chapter 9s are</b></p> <p>17 <b>less common than Chapter 11s. I mean, I'm</b></p> <p>18 <b>comfortable saying that.</b></p> <p>19 Q. Okay. And it would be a minute fraction</p> <p>20 of cities that ever have entered Chapter 9;</p> <p>21 correct?</p> <p>22 <b>A. I don't understand minute or not. But I</b></p> <p>23 <b>think the number of Chapter 9 filings is limited</b></p> <p>24 <b>relative to Chapter 11 filings. I'm comfortable</b></p> <p>25 <b>saying that.</b></p>	<p style="text-align: right;">Page 20</p> <p>1 MALHOTRA</p> <p>2 <b>But I -- so all I'm asking is, are you</b></p> <p>3 <b>asking the question in the context of Detroit or</b></p> <p>4 <b>just risk management?</b></p> <p>5 Q. Risk management in general. You</p> <p>6 wouldn't hold yourself out as an expert in that;</p> <p>7 correct?</p> <p>8 <b>A. I would -- I could only talk about the</b></p> <p>9 <b>risk management and insurance claims for the City</b></p> <p>10 <b>of Detroit. That's what I would -- that's what I</b></p> <p>11 <b>would be comfortable talking about.</b></p> <p>12 Q. Were you involved in putting -- were</p> <p>13 there some forecasts with the creditor proposal</p> <p>14 that accompanied that?</p> <p>15 <b>A. Which creditor proposal?</b></p> <p>16 Q. The one in, I think -- guess it was</p> <p>17 2013, before the bankruptcy.</p> <p>18 <b>A. Yes, there were forecasts, and we were a</b></p> <p>19 <b>part of pulling those together.</b></p> <p>20 Q. And that was my question.</p> <p>21 <b>A. Thank you for the clarification.</b></p> <p>22 Q. You were personally involved in that?</p> <p>23 <b>A. I was.</b></p> <p>24 Q. Okay. In your opinions in this case,</p> <p>25 you're relying on some other experts, such as</p>

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<p style="text-align: right;">Page 21</p> <p>1 MALHOTRA</p> <p>2 Mr. Cline, Ms. Sallee, Conway MacKenzie, Buckfire,</p> <p>3 and Milliman; is that correct?</p> <p>4 <b>A. That is correct.</b></p> <p>5 Q. And do you defer to Mr. Cline with</p> <p>6 respect to his analyses of the various taxes in</p> <p>7 his report?</p> <p>8 <b>A. When you say I defer to, I have looked</b></p> <p>9 <b>at the assumptions and the details and some of the</b></p> <p>10 <b>supporting information that Bob and Caroline have</b></p> <p>11 <b>used and have conversed with them and had</b></p> <p>12 <b>discussions with them about it. So I don't know</b></p> <p>13 <b>your question about defer to them.</b></p> <p>14 Q. Well, who is more knowledgeable about</p> <p>15 the analyses Mr. Cline did? Mr. Cline or you?</p> <p>16 <b>A. Mr. Cline did the analysis, so of course</b></p> <p>17 <b>he would be more knowledgeable about the analysis.</b></p> <p>18 Q. And Ms. Sallee would be more</p> <p>19 knowledgeable about the analyses she did than you</p> <p>20 would be; correct?</p> <p>21 <b>A. That is correct.</b></p> <p>22 Q. Okay. And Conway MacKenzie would be</p> <p>23 more knowledgeable about their analyses than you</p> <p>24 would; correct?</p> <p>25 <b>A. In terms of the minutia and the detail,</b></p>	<p style="text-align: right;">Page 23</p> <p>1 MALHOTRA</p> <p>2 <b>But, yes, the ones who have done the</b></p> <p>3 <b>analyses will have better knowledge of all the</b></p> <p>4 <b>details in them.</b></p> <p>5 Q. In order to put together your forecast,</p> <p>6 was it necessary to use experts in different</p> <p>7 disciplines to assist you in pulling together the</p> <p>8 different pieces of the forecast?</p> <p>9 <b>A. Could you ask me the question again,</b></p> <p>10 <b>please?</b></p> <p>11 Q. In order to perform your forecast, was</p> <p>12 it necessary to use experts in different</p> <p>13 disciplines to pull together pieces of the</p> <p>14 forecast to help you put it all together?</p> <p>15 <b>A. Yeah, when you say "was it necessary,"</b></p> <p>16 <b>in my judgment, having the right subject matter</b></p> <p>17 <b>expertise in various topics helps make the</b></p> <p>18 <b>forecast more reliable versus less reliable.</b></p> <p>19 Q. Okay. So you sought out experts in</p> <p>20 diverse subject matters to assist you with</p> <p>21 different components of the forecast; correct?</p> <p>22 <b>A. Yes.</b></p> <p>23 Q. And that would include Milliman and</p> <p>24 Conway MacKenzie and Buckfire and your colleagues</p> <p>25 at Ernst &amp; Young; correct?</p>
<p style="text-align: right;">Page 22</p> <p>1 MALHOTRA</p> <p>2 <b>the answer would be yes. But I have had</b></p> <p>3 <b>discussions with each one of them in detail about</b></p> <p>4 <b>the broad assumptions that are being used and the</b></p> <p>5 <b>sources of data that are being referred to as the</b></p> <p>6 <b>different teams have been pulling the information</b></p> <p>7 <b>together.</b></p> <p>8 Q. And Buckfire and Milliman would be more</p> <p>9 knowledgeable about their analyses than you would;</p> <p>10 correct?</p> <p>11 <b>A. People who have worked on their specific</b></p> <p>12 <b>part of the analyses would be more comfortable</b></p> <p>13 <b>with all of the detail and minutia in there, in</b></p> <p>14 <b>their respective analysis.</b></p> <p>15 Q. Why are you relying on other experts in</p> <p>16 putting together your forecast?</p> <p>17 <b>A. Because, as I said, that there is --</b></p> <p>18 <b>there are a lot of topics that are relevant in</b></p> <p>19 <b>this case, and each subject matter requires a</b></p> <p>20 <b>great amount of detailed information. And there</b></p> <p>21 <b>are experts that we have on the case who are</b></p> <p>22 <b>relying -- who are doing their work in that</b></p> <p>23 <b>detailed analysis. But I understand most of the</b></p> <p>24 <b>larger assumptions that are embedded in those</b></p> <p>25 <b>analyses.</b></p>	<p style="text-align: right;">Page 24</p> <p>1 MALHOTRA</p> <p>2 <b>A. That is correct. There were different</b></p> <p>3 <b>team members who were charged for first</b></p> <p>4 <b>understanding all of the detailed assumptions for</b></p> <p>5 <b>a particular subject matter.</b></p> <p>6 Q. And did you also rely on experts from</p> <p>7 the City of Detroit in putting together your</p> <p>8 analysis?</p> <p>9 <b>A. When you say "experts from the City of</b></p> <p>10 <b>Detroit," who are you referring to?</b></p> <p>11 Q. Well, I guess, you relied on -- did you</p> <p>12 rely on anybody from the City of Detroit?</p> <p>13 <b>A. Yes. The City of Detroit's management</b></p> <p>14 <b>team was involved in helping pull together some of</b></p> <p>15 <b>this information that is in the forecast.</b></p> <p>16 Q. Okay. And were there people at the City</p> <p>17 of Detroit whose expertise you relied on for</p> <p>18 various assumptions or other information in your</p> <p>19 forecast?</p> <p>20 <b>A. I would say there was -- I don't know</b></p> <p>21 <b>about expertise versus not. We had lots of</b></p> <p>22 <b>discussions with lots of people at the City about</b></p> <p>23 <b>specific line items. I mean, as you can see, the</b></p> <p>24 <b>forecast has got a lot of detail in there. So we</b></p> <p>25 <b>had several discussions with several people. I</b></p>

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<p style="text-align: right;">Page 25</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>just don't know what you're referring to when you</b></p> <p>3 <b>say expertise versus not.</b></p> <p>4 Q. Well, did they have -- I mean, did they</p> <p>5 have expertise in various aspects of the City's</p> <p>6 operations, the people that you relied on?</p> <p>7 <b>A. The people that we talked to and relied</b></p> <p>8 <b>on had, in their particular function, been doing a</b></p> <p>9 <b>certain job for a long time and understood, as</b></p> <p>10 <b>well, why some of the changes in the historical</b></p> <p>11 <b>financials were either normalized or not.</b></p> <p>12 <b>So we had lots of discussions. I just</b></p> <p>13 <b>don't know how I can answer on relying on their</b></p> <p>14 <b>expertise versus not.</b></p> <p>15 Q. Okay. You did rely on information from</p> <p>16 the City, though, in putting together your</p> <p>17 forecast; correct?</p> <p>18 <b>A. That is correct.</b></p> <p>19 Q. And you know the emergency manager has</p> <p>20 characterized the City's operations as</p> <p>21 dysfunctional; correct?</p> <p>22 <b>A. I do not recall that specific comment.</b></p> <p>23 Q. Well, a number of people have criticized</p> <p>24 the City's operations as dysfunctional; isn't that</p> <p>25 correct?</p>	<p style="text-align: right;">Page 27</p> <p>1 <b>MALHOTRA</b></p> <p>2 the Detroit matter?</p> <p>3 <b>A. I would say somewhere between 65 to</b></p> <p>4 <b>100 percent, depending on the week.</b></p> <p>5 Q. And would it be fair to say that the</p> <p>6 Detroit matter is the most significant matter</p> <p>7 you're working on?</p> <p>8 <b>A. All of our clients are important and</b></p> <p>9 <b>significant. I wouldn't say it's the most</b></p> <p>10 <b>significant versus least significant.</b></p> <p>11 Q. Do you get some sort of billing credit</p> <p>12 for the Detroit matter?</p> <p>13 <b>A. What does that mean?</b></p> <p>14 Q. Well, do you -- is your compensation</p> <p>15 increased at all as a result of Detroit matter?</p> <p>16 Is it -- or not?</p> <p>17 <b>A. There is no direct correlation between</b></p> <p>18 <b>Detroit's billing and my compensation.</b></p> <p>19 Q. Okay. How many people at Ernst &amp; Young</p> <p>20 are working on the Detroit matter?</p> <p>21 <b>A. Somewhere between 10 and 20.</b></p> <p>22 Q. And has -- how much, total, has Ernst &amp;</p> <p>23 Young billed the City for its work?</p> <p>24 <b>A. I would have to go back and check, but I</b></p> <p>25 <b>think it's in excess of 10 million, but I don't</b></p>
<p style="text-align: right;">Page 26</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. It depends on what time frame people are</b></p> <p>3 <b>referring to.</b></p> <p>4 Q. Well, they've done it all the way</p> <p>5 through -- in the last few years consistently</p> <p>6 called the City's operations dysfunctional.</p> <p>7 MR. STEWART: Objection.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Correct?</p> <p>10 <b>A. I don't want to make -- that's -- I</b></p> <p>11 <b>don't want to make a broad statement like that.</b></p> <p>12 <b>I'm not comfortable saying yes or no to that.</b></p> <p>13 Q. Okay. So you won't give an answer to</p> <p>14 that question?</p> <p>15 <b>A. I just -- I think if you could ask me</b></p> <p>16 <b>the question about a specific revenue or an</b></p> <p>17 <b>expense line item and with -- but just a general</b></p> <p>18 <b>comment on operations, it's hard for me to make a</b></p> <p>19 <b>comment on that.</b></p> <p>20 Q. Okay. Are the City's operations today</p> <p>21 dysfunctional or not?</p> <p>22 <b>A. I'm not an expert on judging whether all</b></p> <p>23 <b>the operations of the City are dysfunctional or</b></p> <p>24 <b>not.</b></p> <p>25 Q. What percent of your time is spent on</p>	<p style="text-align: right;">Page 28</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>have the exact number.</b></p> <p>3 Q. Would it be in excess of 20 million?</p> <p>4 <b>A. No.</b></p> <p>5 Q. So someplace between 10 and 20 million?</p> <p>6 <b>A. That is a fair estimate. I don't have</b></p> <p>7 <b>the exact number.</b></p> <p>8 Q. The 10 percent holdback, whose idea was</p> <p>9 that?</p> <p>10 <b>A. 10 percent holdback on what?</b></p> <p>11 Q. On Ernst &amp; Young's compensation that you</p> <p>12 reference in your report.</p> <p>13 <b>A. It wasn't an idea. It was a -- a</b></p> <p>14 <b>negotiation with these -- with the City and the</b></p> <p>15 <b>State in terms of the fees.</b></p> <p>16 Q. Okay. So in coming to your arrangement</p> <p>17 for working on the Detroit matter, you negotiated</p> <p>18 with both the City and the State; is that correct?</p> <p>19 <b>A. Yes. Our engagement letter was sent to</b></p> <p>20 <b>the City, and it was also then sent forward to the</b></p> <p>21 <b>State.</b></p> <p>22 Q. And did the State or City request the</p> <p>23 10 percent holdback or did Ernst &amp; Young propose</p> <p>24 that?</p> <p>25 <b>A. It was a reduction in the fees. It</b></p>



<p style="text-align: right;">Page 29</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>was -- it was, I think, brought up by either the</b></p> <p>3   <b>State or the City. I just don't remember</b></p> <p>4   <b>specifically.</b></p> <p>5       Q. Does the 10 percent holdback -- do you</p> <p>6   have an arrangement like that in any other matter</p> <p>7   that you've worked on?</p> <p>8       <b>A. I would have to go back and check. We</b></p> <p>9   <b>offer discounts in different engagements, and I</b></p> <p>10   <b>would have to go back and check.</b></p> <p>11       Q. But have you ever done a contingent fee</p> <p>12   arrangement before for your work?</p> <p>13       MR. STEWART: Objection.</p> <p>14       I'm sorry. You were about to answer.</p> <p>15       I didn't mean to interrupt your</p> <p>16   question, Mr. Smith.</p> <p>17       You have my objection, correct?</p> <p>18       THE COURT REPORTER: I do.</p> <p>19       THE WITNESS: Can you ask your question</p> <p>20   again? I'm sorry.</p> <p>21   BY MR. SMITH:</p> <p>22       Q. Have you ever had a contingent fee</p> <p>23   arrangement in any other matter that you've worked</p> <p>24   on?</p> <p>25       MR. STEWART: Same objection.</p>	<p style="text-align: right;">Page 31</p> <p>1                   <b>MALHOTRA</b></p> <p>2       Q. Okay. Are you aware of any formal</p> <p>3   studies by the City to ascertain whether it can</p> <p>4   increase revenues more than it already has?</p> <p>5       <b>A. There have been various consultant</b></p> <p>6   <b>studies over the last few years, and so . . .</b></p> <p>7       Q. Would it be fair to say that a number of</p> <p>8   consultants the City has retained have given it</p> <p>9   ideas for increasing revenues significantly over</p> <p>10   the last few years?</p> <p>11       <b>A. I don't know the definition of</b></p> <p>12   <b>"significantly" in the context that you're</b></p> <p>13   <b>referring to, but there's lots of consultants that</b></p> <p>14   <b>have provided ideas to the City for increasing</b></p> <p>15   <b>revenues.</b></p> <p>16       Q. And the City has not adopted all the</p> <p>17   ideas it's been provided for increasing revenues</p> <p>18   as of today; correct?</p> <p>19       <b>A. Some of these consultant studies go back</b></p> <p>20   <b>a long way, and I think some of them have been</b></p> <p>21   <b>incorporated and some of them have likely not been</b></p> <p>22   <b>incorporated. So I can't comment whether each and</b></p> <p>23   <b>every idea that's been brought forward by a</b></p> <p>24   <b>consultant to increase revenue has been</b></p> <p>25   <b>incorporated.</b></p>
<p style="text-align: right;">Page 30</p> <p>1                   <b>MALHOTRA</b></p> <p>2       THE WITNESS: Yes.</p> <p>3   BY MR. SMITH:</p> <p>4       Q. Have you ever had a contingent fee</p> <p>5   arrangement in any other bankruptcy matter you've</p> <p>6   worked on?</p> <p>7       <b>A. I would have to go back and check.</b></p> <p>8       Q. Do you have any -- have you ever had a</p> <p>9   contingent fee arrangement in any other matter</p> <p>10   involving litigation?</p> <p>11       <b>A. I would have to go back and check.</b></p> <p>12       Q. Does the 10 percent holdback apply to</p> <p>13   all fees that Ernst &amp; Young has charged or a</p> <p>14   portion of the fees?</p> <p>15       <b>A. It would only be for the portion of the</b></p> <p>16   <b>fees since the City has filed bankruptcy.</b></p> <p>17       Q. Okay. And so it would cover the fees</p> <p>18   that you're charging for your expert work in this</p> <p>19   case, developing the report and testifying?</p> <p>20       <b>A. I believe so, yes.</b></p> <p>21       Q. And it would also apply to the time that</p> <p>22   Mr. Cline and Ms. Sallee have been putting in</p> <p>23   working as experts in the case?</p> <p>24       <b>A. I believe so, yes, but I would like to</b></p> <p>25   <b>reconfirm that.</b></p>	<p style="text-align: right;">Page 32</p> <p>1                   <b>MALHOTRA</b></p> <p>2       Q. Okay. But you knew that there are ideas</p> <p>3   that have been brought forth by experts the City's</p> <p>4   retained to increase revenues that haven't been</p> <p>5   adopted by the City; correct?</p> <p>6       MR. STEWART: Objection.</p> <p>7       THE WITNESS: So I would just like</p> <p>8   clarification in terms of which experts</p> <p>9   you're referring to.</p> <p>10   BY MR. SMITH:</p> <p>11       Q. Well, you mentioned that there are a</p> <p>12   series of consultants the City has hired to look</p> <p>13   at increasing revenues; correct?</p> <p>14       <b>A. That is correct. And what I was</b></p> <p>15   <b>referring to is historically, since this is going</b></p> <p>16   <b>back -- we can go back 5, 10 years, you will find</b></p> <p>17   <b>reports where, you know, people have ideas how to</b></p> <p>18   <b>increase revenue.</b></p> <p>19       Q. Yeah. And my only question is, the City</p> <p>20   hasn't adopted all the ideas for increasing</p> <p>21   revenue that have been provided by independent</p> <p>22   consultants; correct?</p> <p>23       <b>A. Sure. The City has -- has always had</b></p> <p>24   <b>consultants that have provided ideas. Whether all</b></p> <p>25   <b>of the ideas have been incorporated at a given</b></p>

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<p style="text-align: right;">Page 33</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>point in time, it's hard for me to say.</b></p> <p>3 Q. Well, today -- as of today, you're aware</p> <p>4 of revenue-generating ideas that have been</p> <p>5 provided the City by consultants that it hasn't</p> <p>6 implemented; correct?</p> <p>7 <b>A. I mean, is there a particular example</b></p> <p>8 <b>that you're thinking of? It would be a lot easier</b></p> <p>9 <b>for me if somebody would say, "Has X, Y, Z been</b></p> <p>10 <b>implemented?" I would have a better way to say yes</b></p> <p>11 <b>or no versus just a broad statement, have ideas</b></p> <p>12 <b>been incorporated by the City or not.</b></p> <p>13 Q. Privatizing parking. It hasn't yet</p> <p>14 privatized parking?</p> <p>15 <b>A. That is correct. It has not been</b></p> <p>16 <b>privatized yet. You're correct.</b></p> <p>17 Q. Or leasing out the water and sewage</p> <p>18 function; correct? That hasn't been done yet, has</p> <p>19 it?</p> <p>20 <b>A. I believe there is active mediation</b></p> <p>21 <b>going on in that, but you're correct. It has not</b></p> <p>22 <b>been done yet.</b></p> <p>23 Q. So there are a number of proposals for</p> <p>24 increasing revenue that the City has been provided</p> <p>25 by outside consultants that haven't been</p>	<p style="text-align: right;">Page 35</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>involved in any policy decisions, but we were able</b></p> <p>3 <b>to quantify the impact of what that was.</b></p> <p>4 Q. Okay. But you haven't been specifically</p> <p>5 retained by the City to generate ideas for further</p> <p>6 increasing revenue; is that fair?</p> <p>7 <b>A. I would say that is fair in general,</b></p> <p>8 <b>that we haven't gone to do a market study on</b></p> <p>9 <b>specific rates and whether they should be</b></p> <p>10 <b>increased or not.</b></p> <p>11 Q. Whose depositions have you reviewed in</p> <p>12 this case?</p> <p>13 <b>A. Since when?</b></p> <p>14 Q. Well, since forever. I'm trying to find</p> <p>15 out whose depositions you have reviewed in the</p> <p>16 case at any point in time.</p> <p>17 <b>A. Whose depositions?</b></p> <p>18 Q. Yeah, deposition transcripts.</p> <p>19 <b>A. I do not recall. I -- I was -- I think</b></p> <p>20 <b>I was sent Kevyn Orr's deposition from months ago.</b></p> <p>21 <b>That just comes to mind. But I do not recall any</b></p> <p>22 <b>specific depositions that I've reviewed.</b></p> <p>23 Q. Have you reviewed Gary Evanko's</p> <p>24 deposition?</p> <p>25 <b>A. No.</b></p>
<p style="text-align: right;">Page 34</p> <p>1 <b>MALHOTRA</b></p> <p>2 implemented yet; correct?</p> <p>3 <b>A. You have listed two, and I agree that</b></p> <p>4 <b>those two have not been implemented.</b></p> <p>5 Q. Okay. And there are others you're aware</p> <p>6 that haven't been implemented; correct?</p> <p>7 <b>A. You know, if there's others that you</b></p> <p>8 <b>have specific examples on, I'm happy to say</b></p> <p>9 <b>whether they have or have not. But I would say</b></p> <p>10 <b>those -- DWSD has not been implemented, and</b></p> <p>11 <b>there's mediation going on on that; and parking,</b></p> <p>12 <b>my understanding is that there's some active</b></p> <p>13 <b>discussions going on, but it has not been done</b></p> <p>14 <b>yet.</b></p> <p>15 Q. Okay. The -- has the City ever asked</p> <p>16 Ernst &amp; Young to look for ideas to increase</p> <p>17 revenues?</p> <p>18 <b>A. I don't recall if there's a specific</b></p> <p>19 <b>item that talks about how to increase revenues</b></p> <p>20 <b>that is in our scope, but we have had discussions</b></p> <p>21 <b>with the City how to continue to improve the</b></p> <p>22 <b>processes of collections and so on and so forth.</b></p> <p>23 <b>There was active discussions when the</b></p> <p>24 <b>City increased the corporate tax rate from</b></p> <p>25 <b>1 percent and 2 percent. And although E&amp;Y was not</b></p>	<p style="text-align: right;">Page 36</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Did you ever speak to Mr. Evanko in</p> <p>3 preparing the forecast?</p> <p>4 <b>A. I did not, but I know that there may</b></p> <p>5 <b>have been some -- yes, I have not.</b></p> <p>6 Q. And has anybody from Ernst &amp; Young</p> <p>7 spoken to Mr. Evanko?</p> <p>8 <b>A. I think Caroline Sallee may have</b></p> <p>9 <b>exchanged emails with him. I don't know if she's</b></p> <p>10 <b>spoken to him or not.</b></p> <p>11 Q. The actual model that you started with,</p> <p>12 where did that come from that you used for your</p> <p>13 forecast?</p> <p>14 <b>A. Came from Excel spreadsheet.</b></p> <p>15 Q. Okay. Did you basically have to create</p> <p>16 the model?</p> <p>17 <b>A. Yes. It was -- it was supporting</b></p> <p>18 <b>information like the historical, actual</b></p> <p>19 <b>performance of the City, but it started from a</b></p> <p>20 <b>clean Excel spreadsheet.</b></p> <p>21 Q. Okay. So the model that's used in the</p> <p>22 forecasting that you've prepared for Detroit was</p> <p>23 created for purposes of this bankruptcy. Is that</p> <p>24 fair?</p> <p>25 <b>A. It evolved into what we are using in the</b></p>

<p style="text-align: right;">Page 37</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>bankruptcy. We did not start off with a model</b></p> <p>3   <b>that was created for a bankruptcy.</b></p> <p>4       Q. Okay. Would it be fair to say that the</p> <p>5   model that you used for your forecasting was</p> <p>6   created for the City of Detroit; it didn't exist</p> <p>7   before your retention by the City of Detroit?</p> <p>8       <b>A. The model, the way it stands today,</b></p> <p>9   <b>was -- that is correct. It did not -- it wasn't</b></p> <p>10   <b>in existence before we started working on this</b></p> <p>11   <b>engagement.</b></p> <p>12       Q. Can you identify any Chapter 9</p> <p>13   bankruptcy where an expert has done forecasting</p> <p>14   similar to what you've done in this case?</p> <p>15       <b>A. I have not gone and reviewed the</b></p> <p>16   <b>Chapter 9 bankruptcy, so I wouldn't be able to</b></p> <p>17   <b>comment if they have or have not.</b></p> <p>18       Q. So in preparing the model, you didn't</p> <p>19   seek to ascertain what had been done in previous</p> <p>20   Chapter 9 bankruptcies so you could conform what</p> <p>21   you did to standard practices in Chapter 9</p> <p>22   bankruptcies; correct?</p> <p>23           MR. STEWART: Objection.</p> <p>24           THE WITNESS: I don't know how other</p> <p>25   Chapter 9 bankruptcy financial models are</p>	<p style="text-align: right;">Page 39</p> <p>1                   MALHOTRA</p> <p>2       <b>A. Well, let me just -- yeah, I would like</b></p> <p>3   <b>to understand that question better. Testing in</b></p> <p>4   <b>what context?</b></p> <p>5       Q. Any sort of testing. You never -- you</p> <p>6   don't even know what -- what was done in other</p> <p>7   Chapter 9 bankruptcies; correct?</p> <p>8       <b>A. Well, that's a broad -- I have some</b></p> <p>9   <b>sense of what's going on in Chapter 9 bankruptcies</b></p> <p>10   <b>around the country, but not from what's happening</b></p> <p>11   <b>in their financial models.</b></p> <p>12           <b>So I just don't understand your question</b></p> <p>13   <b>of testing a financial model for Detroit against a</b></p> <p>14   <b>financial model for another Chapter 9. Is that</b></p> <p>15   <b>your question?</b></p> <p>16       Q. You don't know what financial models</p> <p>17   have been used in other Chapter 9s; correct?</p> <p>18       <b>A. I do not know the components of the</b></p> <p>19   <b>financial models of other Chapter 9 cases; that is</b></p> <p>20   <b>correct.</b></p> <p>21       Q. Before Ernst &amp; Young was retained, was</p> <p>22   the City doing any forecasting?</p> <p>23       <b>A. Forecasting for what? Budgets?</b></p> <p>24       Q. Its revenues and expenditures, similar</p> <p>25   to the forecasts that you've produced in this</p>
<p style="text-align: right;">Page 38</p> <p>1                   MALHOTRA</p> <p>2   relevant to Detroit's Chapter 9 financial</p> <p>3   model.</p> <p>4   BY MR. SMITH:</p> <p>5       Q. Okay. That wasn't my question.</p> <p>6       You haven't looked at any other</p> <p>7   Chapter 9 financial models; correct?</p> <p>8       <b>A. I did not go and look at other Chapter 9</b></p> <p>9   <b>financial models; that is correct.</b></p> <p>10       Q. So you didn't do any testing of the</p> <p>11   reliability of your model by comparing it with</p> <p>12   other models that have been used in other</p> <p>13   Chapter 9 bankruptcies; correct?</p> <p>14       <b>A. What kind of models, though?</b></p> <p>15       Q. Financial models, forecasting models.</p> <p>16       <b>A. Yeah, the financial forecasts for</b></p> <p>17   <b>Detroit is based on the assumptions for Detroit.</b></p> <p>18   <b>So I don't know why Chapter 9 models, the way you</b></p> <p>19   <b>said it, in other Chapter 9 filings are even</b></p> <p>20   <b>relevant for Detroit.</b></p> <p>21       Q. That's not my question.</p> <p>22       My only point is you haven't gone and</p> <p>23   done any testing of your model compared to models</p> <p>24   that have been used in other Chapter 9</p> <p>25   bankruptcies, correct, to ensure reliability?</p>	<p style="text-align: right;">Page 40</p> <p>1                   MALHOTRA</p> <p>2   case.</p> <p>3       <b>A. Well, I'll answer the first part of the</b></p> <p>4   <b>question. I don't know whether they were similar</b></p> <p>5   <b>or not. But, yes, the City goes through a budget</b></p> <p>6   <b>process every year in which they produce a budget.</b></p> <p>7       Q. Okay. And so the City was producing its</p> <p>8   own forecast before you produced your forecast;</p> <p>9   correct?</p> <p>10       <b>A. The City produces an annual budget which</b></p> <p>11   <b>is what I said, every year.</b></p> <p>12       Q. Okay. And that's a forecast?</p> <p>13       <b>A. Yes. It's a budget for the next year,</b></p> <p>14   <b>for one year.</b></p> <p>15       Q. Okay. So the only -- the length of</p> <p>16   time -- the standard length of time the City used</p> <p>17   for its forecasts before Ernst &amp; Young was</p> <p>18   retained was one year?</p> <p>19       <b>A. That is broadly -- that is generally</b></p> <p>20   <b>correct, yes. There was -- I don't remember</b></p> <p>21   <b>whether there was specific instances where certain</b></p> <p>22   <b>elements of the projection were carried forward</b></p> <p>23   <b>longer or not. But -- and, overall, I would be</b></p> <p>24   <b>comfortable saying that, broadly, there were</b></p> <p>25   <b>one-year budgets, but there were certain elements</b></p>

Pages 37 to 40

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1 **MALHOTRA**

2 **that were probably, you know, taken out longer to**

3 **see what the impact of those revenues or expenses**

4 **were.**

5 Q. You can't identify any budget for the

6 City of Detroit that's done forecasting over a

7 period as long as 10 years; correct?

8 **A. I do not recall of a 10-year budget that**

9 **the City had at that point in time; that is**

10 **correct.**

11 Q. And the City's budgets, when they were

12 doing their forecasting, were all one-year

13 budgets; correct?

14 **A. I thought I just answered that question,**

15 **that they were -- they used to do a one-year**

16 **budget in general, and there were certain items**

17 **that I think they could have had revenues or**

18 **expenses going on beyond one year.**

19 **But generally, you're right; the City**

20 **generally does one-year budgets and now has**

21 **started -- is going to start doing three-year**

22 **budgets.**

23 Q. Now there's a consensus group that's

24 doing forecasting for the City; correct?

25 **A. Consensus group in what way?**

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1 **MALHOTRA**

2 Q. Well, there's a forecast that's called,

3 like, the consensus forecast that is put together,

4 you know, in conjunction with the financial

5 advisory board, I believe?

6 (Telephonic interruption.)

7 MR. SMITH: Do you want to take a break

8 to --

9 MR. STEWART: No.

10 MR. SMITH: Why don't we take a break.

11 Let's get this phone straightened out.

12 THE VIDEOGRAPHER: Going off the record

13 at 9:46 a.m.

14 (Brief pause.)

15 THE VIDEOGRAPHER: Back on the record at

16 9:47.

17 BY MR. SMITH:

18 Q. Mr. Malhotra, have you ever heard of a

19 consensus forecast for the City of Detroit?

20 **A. I do not recall hearing of a consensus**

21 **forecast.**

22 Q. Okay. What are the three-year forecasts

23 that you were mentioning?

24 **A. There is a triennial budget, and then**

25 **there's a revenue conference that is used**

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1 **MALHOTRA**

2 **partially for the triennial budget. That's what I**

3 **was referring to.**

4 Q. Okay. And is there other -- and there's

5 forecasts done for purposes of that triennial

6 budget; is that correct?

7 **A. The triennial budget is being developed**

8 **in conjunction or, you know, similar to what the**

9 **first three years of the financial forecast look**

10 **like for the City.**

11 Q. Okay. And so there's a -- are there a

12 group of outside experts who were involved in

13 reviewing that -- that budget and forecast?

14 **A. I do not know of external parties**

15 **reviewing the triennial budget of the City**

16 **specifically.**

17 Q. Do you work with Shavi Sarna?

18 **A. I do.**

19 Q. What's -- is it Mr. Sarna's role on

20 that, on the project?

21 **A. Shavi is one of our managers who is**

22 **helping on various components of the project.**

23 Q. What components?

24 **A. He's been looking at Department of**

25 **Transportation, looking at some of the revenue**

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1 **MALHOTRA**

2 **sources maybe on the revenue conference. He's**

3 **been helping with some of the cash projections. A**

4 **variety of detailed items.**

5 Q. And is he working 100 percent of his

6 time on the City of Detroit matter?

7 **A. I believe so.**

8 Q. And what, in your view, is the biggest

9 source of untapped revenue for the City?

10 **A. Assets sales.**

11 Q. What asset sales are a source of

12 potential revenue for the City that you're

13 thinking of?

14 **A. DWSD, the parking.**

15 Q. Anything else?

16 **A. Those are the tangible ones that come to**

17 **mind, those that the City, you know, could**

18 **potentially control that come to my mind.**

19 Q. And I've seen reference by Mr. Orr that

20 DWSD, if some of the operations were leased, could

21 produce \$47 million a year in revenue to the City.

22 Have you seen those estimates?

23 **A. I have heard about those estimates, yes.**

24 Q. Okay. And are those reasonable

25 estimates?

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1 MALHOTRA

2 **A. I can't comment on that.**

3 Q. Why can't you comment on it?

4 **A. Because that's something that would be**

5 **better asked of Ken Buckfire whether -- how the**

6 **\$47 million, whether it's reasonable or not.**

7 Q. Okay. And you mentioned it's in

8 mediation right now. What exactly is going on

9 there, based on your understanding?

10 **A. I don't know.**

11 Q. Your forecast doesn't include the

12 47 million that Mr. Orr has mentioned as a

13 potential annual revenue source from DWSD;

14 correct?

15 **A. That is correct. We do not have**

16 **\$47 million a year from DWSD included in the**

17 **forecast.**

18 Q. And you don't have any money from

19 privatization or leasing of DWSD in the forecast;

20 correct?

21 **A. That is correct.**

22 Q. And you don't have any money from

23 privatization of parking in the forecast; correct?

24 **A. That is correct.**

25 Q. Have you seen estimates of the potential

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1 MALHOTRA

2 revenue from privatizing parking?

3 **A. I have not seen a direct estimate, but**

4 **I've heard wide ranges of numbers.**

5 Q. What are the ranges of numbers you've

6 heard for privatizing the parking?

7 **A. It could be 20 million or 50 or**

8 **100 million. There was a wide range. But --**

9 Q. Okay. Is that on an annual basis or

10 not?

11 **A. No, that's in totality.**

12 Q. Okay. That would be an up-front payment

13 of between 20 and \$100 million?

14 **A. I do not --**

15 Q. For parking?

16 **A. -- know whether it's upfront or not.**

17 Q. Who is the most knowledgeable about

18 privatizing the parking?

19 **A. I would say Miller Buckfire.**

20 Q. Do you know if there are other asset

21 sales or privatization efforts the City has been

22 contemplating or reviewing?

23 **A. Yes. There was a sale of the Veteran**

24 **Memorial Building that got pushed back from fiscal**

25 **year '14 to fiscal year '15. It's almost**

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1 MALHOTRA

2 **\$6 million.**

3 Q. And that's in your forecast; correct?

4 **A. It is.**

5 Q. Are there any asset sales or

6 privatization matters that are not contained in

7 your forecast that you're aware that the City has

8 looked at?

9 **A. I'm sorry. It was too long a question.**

10 Q. Are there other privatization efforts

11 that the City has looked at that you're aware of

12 that we haven't discussed?

13 **A. Not any that I recall right now.**

14 Q. Okay. In your view, what are the

15 biggest untapped sources of cost savings for the

16 City?

17 **A. That are not -- that are already**

18 **included in the forecast?**

19 Q. That are not included in the forecast.

20 **A. Oh.**

21 Q. I'm thinking of untapped sources of cost

22 savings. Are there -- what would be the biggest

23 areas of potential cost savings that haven't been

24 incorporated into the forecast?

25 **A. I can't recall any off the top of my**

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1 MALHOTRA

2 **head from the standpoint of what has not been**

3 **incorporated. I'm sure if some of the assets are**

4 **sold, there will be a corresponding reduction in**

5 **the level of staffing potentially. Potentially.**

6 **But I do not -- you know, if there's a specific**

7 **item that you have in mind, I'd be happy to say**

8 **whether it's in the forecast or not.**

9 Q. The City could always cut costs further

10 by reducing wages; correct?

11 **A. Well, the City -- once the City is a**

12 **part of a collective bargaining agreement, I don't**

13 **think that's correct.**

14 Q. Well, the City could always amend the

15 collective bargaining agreements to reduce wages;

16 correct?

17 **A. No.**

18 Q. Well, with the unions. It could

19 cooperate with the unions to reduce wages further;

20 correct?

21 **A. It's been hard to do, looking at the**

22 **City's track record. So I don't know whether it's**

23 **correct or not. It has to be discussed with the**

24 **unions, ratified by the union members. So it's**

25 **not an action the City can take unilaterally.**

Pages 45 to 48

<p style="text-align: right;">Page 49</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. So in your experience, the emergency</p> <p>3 manager hasn't been effective in reducing labor</p> <p>4 costs?</p> <p>5 <b>A. The employees are working with a</b></p> <p>6 <b>10 percent wage cut.</b></p> <p>7 Q. So, in your view, has the emergency</p> <p>8 manager been effective or not in reducing labor</p> <p>9 cost?</p> <p>10 <b>A. In overall labor cost, I would say the</b></p> <p>11 <b>outsourcing of the solid waste helped reduce the</b></p> <p>12 <b>labor cost, because those operations were</b></p> <p>13 <b>outsourced, I believe. But that did help the</b></p> <p>14 <b>reduction in labor costs compared to where they</b></p> <p>15 <b>were earlier. And I would say -- so I think he</b></p> <p>16 <b>has been effective in that in terms of</b></p> <p>17 <b>implementing some of those outsourcing</b></p> <p>18 <b>initiatives.</b></p> <p>19 Q. Outsourcing and privatization is an</p> <p>20 effective mechanism, both of increasing revenue</p> <p>21 and reducing costs; is that correct?</p> <p>22 <b>A. Not always. It has to be in the</b></p> <p>23 <b>construct of the level of service that it's</b></p> <p>24 <b>provided.</b></p> <p>25 Q. But outsourcing and privatization can be</p>	<p style="text-align: right;">Page 51</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>factor on both the costs, because in certain costs</b></p> <p>3 <b>the costs will go up because the level of service</b></p> <p>4 <b>is getting better. So it's hard for me to make</b></p> <p>5 <b>that statement.</b></p> <p>6 Q. Well, I know. But you -- I mean, I'm</p> <p>7 just interested in revenues and costs; right? And</p> <p>8 what the City has actually done.</p> <p>9 So are there any privatization matters</p> <p>10 you're aware of where the City has failed to</p> <p>11 either reduce costs or increase revenues?</p> <p>12 <b>A. Like I said, it depends on the level of</b></p> <p>13 <b>service, so I can't -- I'd be speculating as to</b></p> <p>14 <b>whether it's --</b></p> <p>15 Q. It's not --</p> <p>16 MR. STEWART: Please let him finish his</p> <p>17 answer.</p> <p>18 Finish your answer.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. Okay. Go ahead.</p> <p>21 <b>A. Whether the cost comes down or not, it</b></p> <p>22 <b>depends on the level of service. Whether the</b></p> <p>23 <b>revenue goes up or not, it's also in conjunction</b></p> <p>24 <b>with the level of service.</b></p> <p>25 <b>So like I said earlier, like, if DWSD is</b></p>
<p style="text-align: right;">Page 50</p> <p>1 <b>MALHOTRA</b></p> <p>2 an effective mechanism for increasing revenue and</p> <p>3 reducing costs; correct?</p> <p>4 <b>A. I thought I just answered that. It has</b></p> <p>5 <b>to be in the construct of the level of service</b></p> <p>6 <b>that has to be provided.</b></p> <p>7 Q. Well, the City has used privatization</p> <p>8 and outsourcing as an effective mechanism of</p> <p>9 increasing revenue and reducing costs; correct?</p> <p>10 <b>A. Not always. In certain cases, the cost</b></p> <p>11 <b>comes down, but the revenue does not go up.</b></p> <p>12 Q. Okay.</p> <p>13 <b>A. And it all depends on the level of</b></p> <p>14 <b>service.</b></p> <p>15 Q. I mean, have there been any</p> <p>16 privatization efforts the City's undertaken that</p> <p>17 you believe have not been successful in either</p> <p>18 reducing costs or increasing revenues?</p> <p>19 <b>A. Can you ask me that again, please?</b></p> <p>20 Q. Are there any privatization efforts the</p> <p>21 City has undertaken that you believe have not been</p> <p>22 successful in either reducing costs or increasing</p> <p>23 revenues?</p> <p>24 <b>A. Yeah. Again, I keep coming back. It's</b></p> <p>25 <b>the level of service that has the determining</b></p>	<p style="text-align: right;">Page 52</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>leased or something like that, the potential</b></p> <p>3 <b>revenue stream that may come from that is not</b></p> <p>4 <b>included in this forecast. It could be an</b></p> <p>5 <b>opportunity.</b></p> <p>6 Q. And I'm not talking about the</p> <p>7 privatization efforts that haven't occurred yet.</p> <p>8 I'm talking about privatization efforts or</p> <p>9 outsourcing that has occurred, like you mentioned</p> <p>10 the garbage collection.</p> <p>11 <b>A. That's correct.</b></p> <p>12 Q. And I'm wondering, for the areas that</p> <p>13 have been privatized already, are there any where</p> <p>14 the City failed to realize cost savings or revenue</p> <p>15 increases from the privatization effort?</p> <p>16 <b>A. I do not know.</b></p> <p>17 Q. You can't identify anything where -- any</p> <p>18 privatization efforts, sitting here today, where</p> <p>19 the City failed to realize cost savings or revenue</p> <p>20 increases; is that fair?</p> <p>21 <b>A. That's not fair. So it depends on the</b></p> <p>22 <b>level of service that has been provided as a part</b></p> <p>23 <b>of any outsourcing.</b></p> <p>24 Q. Okay. Can you identify for me any</p> <p>25 privatization effort the City has undertaken</p>

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<p style="text-align: right;">Page 53</p> <p>1 MALHOTRA</p> <p>2 already where it failed to realize cost savings or</p> <p>3 revenue increases? Can you come up with an</p> <p>4 example?</p> <p>5 <b>A. I would not know that from the top of my</b></p> <p>6 <b>head at this juncture because it would all be</b></p> <p>7 <b>relative to the level of service.</b></p> <p>8 Q. There have been proposals to move the</p> <p>9 Department of Transportation to a regional</p> <p>10 authority. You're aware of that; correct?</p> <p>11 <b>A. There was some discussions about that;</b></p> <p>12 <b>that is correct.</b></p> <p>13 Q. And the City believed that it could</p> <p>14 reduce the sums paid by the general fund to the</p> <p>15 Department of Transportation if it moved it to a</p> <p>16 regional authority; correct?</p> <p>17 <b>A. No, I don't think that's correct.</b></p> <p>18 Q. We'll look at some -- why -- what was --</p> <p>19 were there any benefits in terms of revenue or</p> <p>20 cost to the general fund from transferring the</p> <p>21 Department of Transportation to a regional</p> <p>22 authority?</p> <p>23 <b>A. The general fund subsidizes the</b></p> <p>24 <b>Department of Transportation significantly. That</b></p> <p>25 <b>is fact. If it were moved into a regional transit</b></p>	<p style="text-align: right;">Page 55</p> <p>1 MALHOTRA</p> <p>2 depending on the circumstances and the level of</p> <p>3 service to reduce or eliminate the general fund</p> <p>4 subsidy to Department of Transportation; correct?</p> <p>5 <b>A. It could be explored, but I'm not sure</b></p> <p>6 <b>whether the subsidy would be eliminated or</b></p> <p>7 <b>reduced.</b></p> <p>8 Q. Your forecast doesn't include any</p> <p>9 adjustment for moving the Department of</p> <p>10 Transportation to a regional authority; correct?</p> <p>11 <b>A. That is correct.</b></p> <p>12 MR. SMITH: We can take a break. I</p> <p>13 think the court reporter wants a break.</p> <p>14 THE VIDEOGRAPHER: Going off the record</p> <p>15 at 10:02. This is the end of Tape No. 1.</p> <p>16 (Short break taken.)</p> <p>17 THE VIDEOGRAPHER: Back on the record at</p> <p>18 10:10. This is the beginning of Tape No. 2.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. At some point Ernst &amp; Young was looking</p> <p>21 at some ideas for cost cutting for the City; is</p> <p>22 that correct?</p> <p>23 <b>A. Yes.</b></p> <p>24 Q. And are there any proposals for cost</p> <p>25 cutting that Ernst &amp; Young raised that haven't</p>
<p style="text-align: right;">Page 54</p> <p>1 MALHOTRA</p> <p>2 <b>authority, it would depend on the level of service</b></p> <p>3 <b>that had to be provided and what subsidy, if any,</b></p> <p>4 <b>or in excess, the general fund would still be</b></p> <p>5 <b>responsible for if that transition were to take</b></p> <p>6 <b>place.</b></p> <p>7 <b>So it's that -- that would -- it would</b></p> <p>8 <b>basically -- yes, the general fund continues to</b></p> <p>9 <b>subsidize Department of Transportation.</b></p> <p>10 Q. But by -- moving the Department of</p> <p>11 Transportation to a regional authority, the City</p> <p>12 could reduce or eliminate the subsidy from the</p> <p>13 general fund, depending on the level of service;</p> <p>14 correct?</p> <p>15 <b>A. No. Just because it moves the authority</b></p> <p>16 <b>elsewhere, it doesn't -- it's hard to predict what</b></p> <p>17 <b>that structure of the transaction would look like,</b></p> <p>18 <b>because general fund also has the ongoing costs</b></p> <p>19 <b>that it subsidizes DDOT, so -- the Department of</b></p> <p>20 <b>Transportation. So I don't know whether the</b></p> <p>21 <b>subsidy would be eliminated or not.</b></p> <p>22 Q. While -- I'm just saying that it's</p> <p>23 possible -- it's a mechanism -- moving the</p> <p>24 Department of Transportation to a regional</p> <p>25 authority is a mechanism that could be used</p>	<p style="text-align: right;">Page 56</p> <p>1 MALHOTRA</p> <p>2 been adopted by the City?</p> <p>3 <b>A. Nothing substantive that comes to the</b></p> <p>4 <b>top of my head right now. If you have specific</b></p> <p>5 <b>ideas, I could definitely say yes or no. But</b></p> <p>6 <b>nothing big that comes --</b></p> <p>7 Q. I mean, are you still looking at cost</p> <p>8 cutting for the City, or did that stop at some</p> <p>9 point?</p> <p>10 <b>A. I would say that after the wage</b></p> <p>11 <b>reductions that were imposed on the employees with</b></p> <p>12 <b>respect to the 10 percent wage cuts and the</b></p> <p>13 <b>12-hour shifts that were imposed, which were,</b></p> <p>14 <b>again, big-ticket items with respect to wages,</b></p> <p>15 <b>the -- there was an ongoing focus in terms of how</b></p> <p>16 <b>to continue to reduce the costs also by -- in</b></p> <p>17 <b>terms of the transition of the grid.</b></p> <p>18 <b>But I would say our focus was, in the</b></p> <p>19 <b>last few months, has not been on more cost cutting</b></p> <p>20 <b>specifically on wages, but it was because of all</b></p> <p>21 <b>the imposition of the wage cuts that had already</b></p> <p>22 <b>been made.</b></p> <p>23 Q. The City also has made significant</p> <p>24 headcount reductions over the last couple of</p> <p>25 years; is that fair?</p>

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1 MALHOTRA

2 **A. Yes. In the -- in the combination of**

3 **attrition and other cuts, the City has lost a**

4 **tremendous amount of headcount.**

5 Q. And those headcount reductions are an

6 important mechanism by which the City has

7 addressed its fiscal condition; would you agree

8 with that?

9 (Discussion held off the

10 stenographic record.)

11 THE WITNESS: Could you ask me the

12 question --

13 BY MR. SMITH:

14 Q. Yeah, I can ask it again. The headcount

15 reductions are an important mechanism the City has

16 used to try to improve its fiscal situation;

17 correct?

18 **A. The headcount reduction has helped**

19 **reduce cost, but the impact on the service levels**

20 **in specific departments is the question. But**

21 **reduction in headcount, at least on the surface,**

22 **has resulted in lower wages or payroll-related**

23 **costs compared to the past.**

24 Q. How much has the City saved in its

25 headcount reductions in terms of costs, a ballpark

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1 MALHOTRA

2 figure?

3 **A. I can't give you a ballpark figure.**

4 Q. Would it be hundreds of millions of

5 dollars?

6 **A. Over what time frame?**

7 Q. Over the last year or two.

8 **A. Last year or two?**

9 Q. Two years. Since Ernst & Young has been

10 working for the City, how much has the City been

11 able to save by headcount reductions?

12 **A. It would be hard for me to give you a**

13 **specific number. And the reason for that is,**

14 **there is also grant-related positions that have**

15 **been reduced and grant-related positions, of**

16 **course, a net zero impact because the**

17 **grant-related revenue has gone down as well.**

18 **So just looking at the payroll line**

19 **item, it's hard for me to give you an answer from**

20 **the top of my head.**

21 Q. Do you agree that the City engaged in

22 headcount reductions for the specific purpose of

23 reducing its costs and improving its fiscal

24 condition?

25 **A. My answer would be similar to my earlier**

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1 MALHOTRA

2 **one. The City has reduced its payroll-related**

3 **costs compared to two years ago. But a lot of**

4 **that has also come through attrition. And whether**

5 **not replacing them, what impact that has had on**

6 **the quality of service the City has provided, I**

7 **don't know.**

8 Q. That wasn't quite my question. My

9 question is, the City engaged in headcount

10 reductions to cut costs to improve its fiscal

11 condition; isn't that correct? I mean, there was

12 a policy of the City that it put in place to

13 reduce headcount to save costs and improve the

14 fiscal condition; correct?

15 **A. The biggest focus was wages, not**

16 **headcount. The biggest focus was the level of**

17 **wages.**

18 Q. Okay. But then a secondary focus of the

19 City was to reduce headcount to save money,

20 correct, and improve the City's fiscal position?

21 **A. I don't know if that was how the**

22 **attrition was being replaced. So I'm much more**

23 **comfortable saying that attacking the wages was**

24 **something -- or focusing on reducing the wages was**

25 **something that the City was much more focused on.**

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1 MALHOTRA

2 **There could be instances where department --**

3 **specific department headcount for a particular**

4 **department was focused on. But I remember that**

5 **there was a focus actually not to reduce the**

6 **headcount at public safety.**

7 **So I can't answer that question on the**

8 **headcount specifically.**

9 Q. You would agree with me that headcount

10 reductions by the City in the last two years have

11 cut City costs; correct?

12 **A. The level of headcount by the City is**

13 **lower today than it was two years ago, which has**

14 **resulted in lower payroll cost.**

15 Q. How many people at the City contributed

16 to your forecast?

17 **A. When you say "contributed to the**

18 **forecast" --**

19 Q. Provided you with information for your

20 forecast.

21 **A. I'd say there were several. I don't**

22 **have a number off the top of my head. Some more**

23 **detailed than the others.**

24 Q. Would it be more than 10 or 20?

25 **A. It depends. I mean, there were -- if**

Pages 57 to 60



<p style="text-align: right;">Page 61</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>you look at -- I would be much more comfortable if</b></p> <p>3 <b>I had the forecast in front of me to look at by</b></p> <p>4 <b>line item and say what information we would have</b></p> <p>5 <b>gotten from where. It's hard for me to just say</b></p> <p>6 <b>that it was 10 or 20 people giving us this</b></p> <p>7 <b>forecast.</b></p> <p>8 Q. All right. So you can't tell me the</p> <p>9 number of people from the City who have</p> <p>10 contributed to your forecast, sitting here today;</p> <p>11 correct?</p> <p>12 MR. STEWART: Objection.</p> <p>13 THE WITNESS: That is correct. I don't</p> <p>14 have the exact number of people that helped</p> <p>15 us pull together on the forecast.</p> <p>16 BY MR. SMITH:</p> <p>17 Q. And you couldn't identify all the people</p> <p>18 that helped you from the City in preparing your</p> <p>19 forecast; correct?</p> <p>20 <b>A. I could identify this some of them, yes.</b></p> <p>21 Q. But you can't identify all the people</p> <p>22 from the City who helped you prepare your</p> <p>23 forecast; correct?</p> <p>24 <b>A. I could identify some of the people.</b></p> <p>25 Q. But not all of them; correct?</p>	<p style="text-align: right;">Page 63</p> <p>1 <b>MALHOTRA</b></p> <p>2 transcript to the Judge and ask him if he</p> <p>3 thinks it's reasonable, but I can't get an</p> <p>4 answer to that question.</p> <p>5 MR. STEWART: Let's do it. I'm happy</p> <p>6 to -- I'd be delighted to do that. He said</p> <p>7 what do you mean by "numerous," and you</p> <p>8 haven't answered him.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Okay. More than 40 people. Would you</p> <p>11 agree that more than 40 people have contributed</p> <p>12 inputs to your model?</p> <p>13 <b>A. I don't think so.</b></p> <p>14 Q. And more than 30 people?</p> <p>15 <b>A. I would have to take time to think about</b></p> <p>16 <b>this, because of the -- the different input levels</b></p> <p>17 <b>that have come about. I don't know about the</b></p> <p>18 <b>number of people, whether it's more than 30 now.</b></p> <p>19 <b>I don't think --</b></p> <p>20 Q. Yeah. So sitting here today, you can't</p> <p>21 identify the number of people who have contributed</p> <p>22 inputs to your model; correct?</p> <p>23 <b>A. I can identify the number of firms or</b></p> <p>24 <b>organizations that have helped. The number of</b></p> <p>25 <b>people that work at each one of those firms, I</b></p>
<p style="text-align: right;">Page 62</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. Well, maybe actually if we sit down and</b></p> <p>3 <b>go through the line items, maybe I could identify</b></p> <p>4 <b>all of them.</b></p> <p>5 Q. How many people from Conway MacKenzie</p> <p>6 assisted in preparing material for your forecast?</p> <p>7 <b>A. I don't know of the exact number of</b></p> <p>8 <b>Conway MacKenzie team members. But they have</b></p> <p>9 <b>roughly, I would say, between five and seven key</b></p> <p>10 <b>people that we were interacting with and -- in</b></p> <p>11 <b>terms of getting the information on the</b></p> <p>12 <b>reinvestment and restructuring component of the</b></p> <p>13 <b>forecast.</b></p> <p>14 Q. Would it be fair to say your forecasting</p> <p>15 depends on the inputs of numerous people at a</p> <p>16 number of different organizations?</p> <p>17 <b>A. What do you define as "numerous" versus</b></p> <p>18 <b>"a number of different organizations"?</b></p> <p>19 <b>I can tell you who we talked to at</b></p> <p>20 <b>Conway MacKenzie, on which line items of the</b></p> <p>21 <b>restructuring and reinvestment forecast.</b></p> <p>22 Q. That's not my question.</p> <p>23 MR. SMITH: And, you know, this kind of</p> <p>24 answer, Geoff, is, again, obstruction of the</p> <p>25 deposition. You know, we can take the</p>	<p style="text-align: right;">Page 64</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>cannot talk about.</b></p> <p>3 Q. Okay. Would it be fair to say that your</p> <p>4 model is a complex model that depends on inputs by</p> <p>5 a number of people?</p> <p>6 <b>A. I don't know if it's complex or not, but</b></p> <p>7 <b>it has required the input of three or four of the</b></p> <p>8 <b>main firms that have been dealing with this</b></p> <p>9 <b>situation to pull the plan together for the City.</b></p> <p>10 Q. When did you first create your forecast?</p> <p>11 <b>A. Which forecast?</b></p> <p>12 Q. Well, have you created more than one</p> <p>13 forecast for the City of Detroit?</p> <p>14 <b>A. Well, there's the plan of adjustment.</b></p> <p>15 <b>We have the financials, the 10-year financials and</b></p> <p>16 <b>the 40-year financials that are there. We have</b></p> <p>17 <b>the update from July 2nd, along with the bridge</b></p> <p>18 <b>that's there.</b></p> <p>19 <b>There were iterations of that previously</b></p> <p>20 <b>as a part of the third plan, amended plan. And so</b></p> <p>21 <b>I just want to make sure you can ask me which</b></p> <p>22 <b>specific forecast.</b></p> <p>23 Q. When was the first time you created any</p> <p>24 forecast for the City of Detroit?</p> <p>25 <b>A. Any forecast? Probably</b></p>

<p style="text-align: right;">Page 65</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>two-and-a-half-plus years ago.</b></p> <p>3 Q. Okay. Were there forecasts you created</p> <p>4 for the City of Detroit that were less than</p> <p>5 10-year forecasts?</p> <p>6 <b>A. I think we started looking at a</b></p> <p>7 <b>five-year forecast sometime probably two-plus</b></p> <p>8 <b>years ago. I don't remember exactly.</b></p> <p>9 Q. What was the purpose of that forecast?</p> <p>10 <b>A. I would have to go back and check. This</b></p> <p>11 <b>is over two years ago. I don't remember</b></p> <p>12 <b>specifically when we started developing the</b></p> <p>13 <b>forecast. It was, again, to look at the</b></p> <p>14 <b>liabilities of the City over a longer term versus</b></p> <p>15 <b>on a more short-term basis.</b></p> <p>16 Q. And did you actually complete a</p> <p>17 forecast -- a five-year forecast for the City?</p> <p>18 <b>A. When you say "complete," I mean, we may</b></p> <p>19 <b>have had different iterations. I don't know if</b></p> <p>20 <b>there was ever something that was complete or not.</b></p> <p>21 Q. So you had more than one iteration of a</p> <p>22 five-year forecast for the City?</p> <p>23 <b>A. Absolutely.</b></p> <p>24 Q. Okay.</p> <p>25 <b>A. We would have had different inputs and</b></p>	<p style="text-align: right;">Page 67</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Have you ever been asked to produce the</p> <p>3 five-year forecast in this case?</p> <p>4 <b>A. So -- no, I do not know if we have or</b></p> <p>5 <b>have not.</b></p> <p>6 Q. Okay. The -- okay. On the 10-year</p> <p>7 forecast and 40-year forecast, there have been</p> <p>8 many different versions of that. Would that be</p> <p>9 fair to say?</p> <p>10 <b>A. That is fair. Yes.</b></p> <p>11 Q. When was the first time that you -- what</p> <p>12 was the first time you did the 10-year and 40-year</p> <p>13 forecast?</p> <p>14 <b>A. Well, I do not recall. I think the</b></p> <p>15 <b>10-year10-year forecast we had a version of in the</b></p> <p>16 <b>June 30th -- the June 13th proposal to</b></p> <p>17 <b>creditors. That seems around the time frame when</b></p> <p>18 <b>we would have had the 10-year forecast sort of</b></p> <p>19 <b>come together with the assumptions as of then.</b></p> <p>20 Q. And the five-year forecast, who chose</p> <p>21 five years for the length of time of the forecast?</p> <p>22 <b>A. It was likely somebody at the City. I</b></p> <p>23 <b>don't remember.</b></p> <p>24 Q. Okay. The five-year forecast, did you</p> <p>25 conclude that the City had positive revenues</p>
<p style="text-align: right;">Page 66</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>iterations, just like we have different versions</b></p> <p>3 <b>of the 10-year and the 40-year projections.</b></p> <p>4 Q. And do you have possession of the</p> <p>5 documentation for those forecasts? Or the --</p> <p>6 <b>A. The 10 or the 40? I'm sorry.</b></p> <p>7 Q. For the five-year forecast that you did,</p> <p>8 who has those forecasts and the documentation?</p> <p>9 <b>A. It would be somebody either at the City</b></p> <p>10 <b>or it would definitely be with our team as well.</b></p> <p>11 Q. Did the five-year forecasts you produced</p> <p>12 before the bankruptcy use the same model that</p> <p>13 you've used for the 10-year and 40-year forecasts?</p> <p>14 Or was it different?</p> <p>15 <b>A. I don't recall. I don't recall. This</b></p> <p>16 <b>is a long time ago.</b></p> <p>17 Q. Did the same people work on the</p> <p>18 five-year forecast? I mean, obviously you worked</p> <p>19 on the five-year forecast; correct?</p> <p>20 <b>A. Yeah. I mean, I think on the five-year</b></p> <p>21 <b>forecast, if I go back, it was much more -- it was</b></p> <p>22 <b>just looking at how large the expenses side would</b></p> <p>23 <b>be in terms of the ongoing legacy costs. So I</b></p> <p>24 <b>don't recall specifically. I mean, could go back</b></p> <p>25 <b>and try and figure out, but this was a long time.</b></p>	<p style="text-align: right;">Page 68</p> <p>1 <b>MALHOTRA</b></p> <p>2 compared to costs during that time or not?</p> <p>3 <b>A. I do not recall.</b></p> <p>4 Q. And what was the purpose of preparing</p> <p>5 the five-year forecast?</p> <p>6 <b>A. I do not recall specifically, but I</b></p> <p>7 <b>think we were starting to look at the expenses of</b></p> <p>8 <b>the City and how the costs were going to continue</b></p> <p>9 <b>to grow over the next four or five years.</b></p> <p>10 Q. Since the first ten-year forecast that</p> <p>11 you prepared, how many times have you created</p> <p>12 different versions of the 10-year forecast?</p> <p>13 <b>A. Lots.</b></p> <p>14 Q. Can you give me an estimate of how many</p> <p>15 times?</p> <p>16 <b>A. Well, it's a dynamic model. So as the</b></p> <p>17 <b>assumptions change and get updated, we save a</b></p> <p>18 <b>different version. And whatever we have, I guess,</b></p> <p>19 <b>has been produced already. So I have not gone</b></p> <p>20 <b>back and counted the number of versions.</b></p> <p>21 Q. How many -- are there major changes --</p> <p>22 major iterations of the model that have been done?</p> <p>23 I mean, you mentioned there's one for the plan.</p> <p>24 There's the July 2nd one. Are there major --</p> <p>25 are there other periods -- times when it was</p>

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<p style="text-align: right;">Page 69</p> <p>1 MALHOTRA</p> <p>2 revised in a major way? I don't know how you</p> <p>3 would characterize those.</p> <p>4 <b>A. Sorry. Can you ask -- just repeat</b></p> <p>5 <b>what --</b></p> <p>6 Q. Well, let me ask again. You say that</p> <p>7 the -- you had one version of the ten-year</p> <p>8 forecast in the plan of adjustment; correct?</p> <p>9 <b>A. That is correct.</b></p> <p>10 Q. Okay. And then the July 2nd revision.</p> <p>11 You had another version of the 10- and 40-year</p> <p>12 forecast; correct?</p> <p>13 <b>A. That is correct.</b></p> <p>14 Q. What were the big changes between the</p> <p>15 forecast in the plan and the July 2nd?</p> <p>16 <b>A. So we've created a bridge that walks</b></p> <p>17 <b>through the changes, but I'll go off the top of my</b></p> <p>18 <b>head of what I recall. The forecasted revenues</b></p> <p>19 <b>were updated based on the updated information we</b></p> <p>20 <b>had. We updated the potential LTGO settlement.</b></p> <p>21 <b>We updated the economics of the -- the potential</b></p> <p>22 <b>economics of a DPOA and DFFA change.</b></p> <p>23 <b>We updated the timing and, I think, the</b></p> <p>24 <b>cost of the reinvestment and restructuring</b></p> <p>25 <b>initiatives. And I think we updated the</b></p>	<p style="text-align: right;">Page 71</p> <p>1 MALHOTRA</p> <p>2 first created?</p> <p>3 <b>A. I do not know that it's hundreds of</b></p> <p>4 <b>changes or not. I mean, I don't know what you --</b></p> <p>5 <b>is a -- is a change in an assumption a change that</b></p> <p>6 <b>you're referring to?</b></p> <p>7 Q. Yes.</p> <p>8 <b>A. I don't know if there's hundreds of</b></p> <p>9 <b>changes in the assumptions from what -- but I</b></p> <p>10 <b>don't know. It's hard for me to define what are</b></p> <p>11 <b>the key elements that have changed. I mean, we've</b></p> <p>12 <b>got -- we have produced the information when we</b></p> <p>13 <b>have updated information, we reflect that. And</b></p> <p>14 <b>the same thing with the settlements.</b></p> <p>15 Q. So you can't tell me how many changes</p> <p>16 you've made to your forecast since it was created;</p> <p>17 correct?</p> <p>18 <b>A. I can tell you about the broad</b></p> <p>19 <b>assumptions that have changed since we created the</b></p> <p>20 <b>forecast. The exact number of changes, you're</b></p> <p>21 <b>correct; I cannot say. But I can talk about the</b></p> <p>22 <b>main assumptions that have changed since we had</b></p> <p>23 <b>developed the forecast.</b></p> <p>24 Q. And would it be fair to say that in</p> <p>25 order to ensure the reliability of your forecast,</p>
<p style="text-align: right;">Page 70</p> <p>1 MALHOTRA</p> <p>2 <b>financing-related changes in terms of the timing</b></p> <p>3 <b>for the 10- and 40-year -- those are the big ones</b></p> <p>4 <b>that come to mind.</b></p> <p>5 Q. Would it be fair to say that there was a</p> <p>6 significant reduction in the amount of</p> <p>7 reinvestment expenditure?</p> <p>8 <b>A. I don't know if there was a</b></p> <p>9 <b>significant -- I don't know how you define</b></p> <p>10 <b>"significant."</b></p> <p>11 Q. Weren't there hundreds of millions of</p> <p>12 dollars in reduction or not?</p> <p>13 <b>A. It would be easier if I had this</b></p> <p>14 <b>document in front of me, because there were some</b></p> <p>15 <b>of the changes that were more -- maybe</b></p> <p>16 <b>operations-driven versus -- or, you know,</b></p> <p>17 <b>capex-driven.</b></p> <p>18 Q. Would it be fair to say that you've</p> <p>19 engaged in a process of continually updating the</p> <p>20 forecast since you first created it?</p> <p>21 <b>A. As the City has reached settlements with</b></p> <p>22 <b>different creditors and we have updated those on a</b></p> <p>23 <b>continuous basis.</b></p> <p>24 Q. Would it be fair to say that you've made</p> <p>25 hundreds of changes to your forecast since it was</p>	<p style="text-align: right;">Page 72</p> <p>1 MALHOTRA</p> <p>2 you've continuously updated as assumptions change</p> <p>3 and other inputs change; correct?</p> <p>4 <b>A. That is correct.</b></p> <p>5 Q. Is there any -- has the City made any</p> <p>6 arrangement to continue -- to continue Ernst &amp;</p> <p>7 Young's work after the bankruptcy?</p> <p>8 <b>A. There is some ongoing work that Ernst &amp;</b></p> <p>9 <b>Young will continue to do after the bankruptcy,</b></p> <p>10 <b>yes.</b></p> <p>11 Q. What work?</p> <p>12 <b>A. We have some work in terms of helping</b></p> <p>13 <b>the City implement or review its HR technology</b></p> <p>14 <b>systems. And we're having discussions with the</b></p> <p>15 <b>City about an ongoing role in terms of assisting</b></p> <p>16 <b>with cash management. So it's something that's</b></p> <p>17 <b>being discussed.</b></p> <p>18 Q. Have you entered into any arrangement to</p> <p>19 continue updating your forecast after the</p> <p>20 bankruptcy is confirmed?</p> <p>21 <b>A. Not as of yet.</b></p> <p>22 Q. Okay. But there's -- has there been</p> <p>23 discussions about that or not?</p> <p>24 <b>A. I have to schedule this -- I have to</b></p> <p>25 <b>schedule a discussion, which we were trying to do</b></p>

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<p style="text-align: right;">Page 73</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>with the CFO and even likely the mayor, about</b></p> <p>3 <b>E&amp;Y's role after the bankruptcy is over.</b></p> <p>4 Q. Thus far, there haven't been any</p> <p>5 discussions about E&amp;Y continuing work on its</p> <p>6 forecast after the bankruptcy; correct?</p> <p>7 <b>A. There have been discussions about cash</b></p> <p>8 <b>management and cash forecasting. So when you</b></p> <p>9 <b>say -- if you're referring to the 10-year and</b></p> <p>10 <b>40-year forecast, that is a part of the plan of</b></p> <p>11 <b>adjustment. I have not had a specific discussion</b></p> <p>12 <b>on that as of yet.</b></p> <p>13 Q. Yet. But as of yet, there's been no</p> <p>14 discussion about Ernst &amp; Young continuing to</p> <p>15 update its 10-year and 40-year forecast after the</p> <p>16 plan is confirmed; correct?</p> <p>17 <b>A. That is correct. We have had</b></p> <p>18 <b>discussions about updating or talking about cash</b></p> <p>19 <b>flows and cash management and some of the other</b></p> <p>20 <b>work streams that I've mentioned. But we have</b></p> <p>21 <b>to -- and John Hill and I have to sit down with</b></p> <p>22 <b>the mayor and get more specificity around what we</b></p> <p>23 <b>will be doing going forward.</b></p> <p>24 Q. Would it be fair to say that the scope</p> <p>25 of Ernst &amp; Young's role after the bankruptcy, has</p>	<p style="text-align: right;">Page 75</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. That is correct.</b></p> <p>3 Q. And some of those assumptions are</p> <p>4 assumptions that were provided by other parties,</p> <p>5 such as Conway MacKenzie or the City or other</p> <p>6 parties; correct?</p> <p>7 <b>A. Some of the assumptions, yes, were</b></p> <p>8 <b>provided by the other parties, but I'm generally</b></p> <p>9 <b>aware of the broad assumptions that are in there,</b></p> <p>10 <b>even for those provided by the other parties.</b></p> <p>11 Q. And some of the assumptions for your</p> <p>12 forecast you created; correct?</p> <p>13 <b>A. Yes.</b></p> <p>14 Q. And as you mentioned, the assumptions</p> <p>15 for your forecast have changed over time, as</p> <p>16 you've done different iterations of the forecast;</p> <p>17 correct?</p> <p>18 <b>A. Well, the assumptions have changed</b></p> <p>19 <b>because of the settlements that have reached. So</b></p> <p>20 <b>based on the terms of the settlements, you know,</b></p> <p>21 <b>we have updated those. Some of the other</b></p> <p>22 <b>assumptions, which are also really extrapolations</b></p> <p>23 <b>of run rates, are -- they are generally what they</b></p> <p>24 <b>are.</b></p> <p>25 <b>So, yes, as the assumptions -- we have</b></p>
<p style="text-align: right;">Page 74</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>been confirmed, has not been agreed upon yet?</b></p> <p>3 <b>A. That is correct.</b></p> <p>4 Q. Do you have any idea when you might work</p> <p>5 that out with the City? Or is nothing scheduled</p> <p>6 right now?</p> <p>7 <b>A. No. We have been actually trying to</b></p> <p>8 <b>schedule something, and it has gotten changed in</b></p> <p>9 <b>the last couple of weeks. But -- it's something</b></p> <p>10 <b>that we need to do and get done.</b></p> <p>11 Q. Did the City folk cancel a meeting with</p> <p>12 you?</p> <p>13 <b>A. No. It was just our -- John and my</b></p> <p>14 <b>schedules didn't meet</b></p> <p>15 Q. Well, you know, John is going to be in</p> <p>16 town this week; right?</p> <p>17 <b>A. I do.</b></p> <p>18 Q. Do you have any plans to talk to him</p> <p>19 about Ernst &amp; Young's role this week while he's in</p> <p>20 town?</p> <p>21 <b>A. I think John will have his hands full,</b></p> <p>22 <b>so, no.</b></p> <p>23 Q. Okay. The -- there are a number of</p> <p>24 assumptions in the -- in your forecast that you</p> <p>25 describe in your expert report; correct?</p>	<p style="text-align: right;">Page 76</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>changed the assumptions to reflect updated terms</b></p> <p>3 <b>of settlement with different parties for sure.</b></p> <p>4 Q. The initial version of the forecast,</p> <p>5 10-year and 40-year forecast you created would no</p> <p>6 longer be accurate, then; correct?</p> <p>7 <b>A. It depends on which line items you're</b></p> <p>8 <b>talking about, because the settlements reflect</b></p> <p>9 <b>certain line items, not all.</b></p> <p>10 <b>So, you know, it's --</b></p> <p>11 Q. Well, the -- I'm thinking about the</p> <p>12 entire results, the results from the 10-year and</p> <p>13 40-year forecasts that you initially created would</p> <p>14 no longer be accurate; correct?</p> <p>15 <b>A. Could you be more specific on results?</b></p> <p>16 <b>Which results are you talking about?</b></p> <p>17 Q. Well, the total numbers for the revenue</p> <p>18 and costs of the City would no longer -- generated</p> <p>19 by your original forecast would no longer be</p> <p>20 accurate; correct?</p> <p>21 <b>A. I don't know whether -- I'm just trying</b></p> <p>22 <b>to think about the individual line items that have</b></p> <p>23 <b>changed to make sure that I can answer your</b></p> <p>24 <b>question accurately.</b></p> <p>25 <b>I would say that the latest -- yes, the</b></p>

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<p style="text-align: right;">Page 77</p> <p>1 <b>MALHOTRA</b></p> <p>2 latest updates are probably the best information</p> <p>3 we have as of date.</p> <p>4 Whether that makes all of those</p> <p>5 forecasts -- and I think you used the word</p> <p>6 "inaccurate." That's -- it's just we have better</p> <p>7 information today than we had earlier.</p> <p>8 Q. Okay. Your more recent forecasts would</p> <p>9 be more reliable than your first forecast; is that</p> <p>10 fair?</p> <p>11 A. I would say, yes, the most recent</p> <p>12 forecasts are the best picture we would have as of</p> <p>13 date, yes.</p> <p>14 Q. Would it be fair to say that the longer</p> <p>15 the forecast, the less reliable the forecast?</p> <p>16 A. It depends on specific line items and</p> <p>17 assumptions. But the further you get out there,</p> <p>18 the -- there is more uncertainty whether each one</p> <p>19 of those assumptions will play out the way they</p> <p>20 are in the forecast.</p> <p>21 Q. And would you agree that the greater the</p> <p>22 number of assumptions in your model, the more</p> <p>23 uncertainty and potential for unreliability there</p> <p>24 is with the model?</p> <p>25 A. No, because --</p>	<p style="text-align: right;">Page 79</p> <p>1 <b>MALHOTRA</b></p> <p>2 well documented all over about financial advisers,</p> <p>3 how to create projections, look at the historical</p> <p>4 performance.</p> <p>5 So, yeah, that's generally technical in</p> <p>6 nature, but not scientific.</p> <p>7 Q. But so the -- but is there any treatise</p> <p>8 or other publication that you can identify for me</p> <p>9 today that lays out the technical methodology you</p> <p>10 used for the Detroit forecast?</p> <p>11 A. I would say any financial journal that</p> <p>12 you will pick up, from a financial adviser's</p> <p>13 standpoint, has tons of articles written on how to</p> <p>14 build good -- develop reasonable forecasts.</p> <p>15 Q. But can you identify one article,</p> <p>16 sitting here today, that contains the specific</p> <p>17 methodology you used in the Detroit forecast?</p> <p>18 A. I do not recall one off the top of my</p> <p>19 head, no.</p> <p>20 Q. Before the Detroit matter, what was the</p> <p>21 longest period of time you ever did a forecast of</p> <p>22 revenues or expenditures for?</p> <p>23 A. I would say somewhere maybe between five</p> <p>24 and ten years.</p> <p>25 Q. And you've never done -- I think you</p>
<p style="text-align: right;">Page 78</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Well, all the other things being held</p> <p>3 constant, do you agree that the more assumptions</p> <p>4 that you have in a model, the greater the</p> <p>5 potential for uncertainty and unreliability?</p> <p>6 A. No.</p> <p>7 Q. Why is that?</p> <p>8 A. Because different assumptions can also</p> <p>9 offset each other.</p> <p>10 Q. Did you rely on any scientific or</p> <p>11 technical literature in creating your forecast?</p> <p>12 A. I'm sorry? What is --</p> <p>13 Q. Well, is there any scientific or</p> <p>14 technical literature that lays out the methodology</p> <p>15 you used in your forecast?</p> <p>16 A. The financial forecast, the way it's</p> <p>17 been developed is how it's generally developed by</p> <p>18 all financial advisory firms.</p> <p>19 Q. But that's not my question. Is there</p> <p>20 any scientific or technical literature you can</p> <p>21 identify for me today that lays out the</p> <p>22 methodology that you used in creating the forecast</p> <p>23 for Detroit?</p> <p>24 A. I do not know of any scientific</p> <p>25 methodology. Technical methodology is generally</p>	<p style="text-align: right;">Page 80</p> <p>1 <b>MALHOTRA</b></p> <p>2 testified you'd never done a forecast for a</p> <p>3 municipality before Detroit; correct?</p> <p>4 A. No, I did not testified to that. I</p> <p>5 testified that I've done it for Detroit Public</p> <p>6 Schools. I've developed a forecast for Detroit</p> <p>7 Public Schools.</p> <p>8 Q. But for an actual city, municipality,</p> <p>9 you've never done a forecast before Detroit's;</p> <p>10 correct?</p> <p>11 A. For a city, that is correct.</p> <p>12 Q. You did some forecasting for the Detroit</p> <p>13 Public Schools?</p> <p>14 A. That's right.</p> <p>15 Q. What was the length of time that you</p> <p>16 forecast for the Detroit Public Schools?</p> <p>17 A. I would have to go back and look. It</p> <p>18 could have been up to five years. It was probably</p> <p>19 somewhere in that neighborhood or shorter. I</p> <p>20 would have to go back and check.</p> <p>21 Q. Are your forecasts that you've created</p> <p>22 in this case based on the business judgment of any</p> <p>23 City officials?</p> <p>24 A. I would say yes.</p> <p>25 Q. And yet you -- which City officials</p>

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<p style="text-align: right;">Page 81</p> <p>1 MALHOTRA</p> <p>2 would -- who exercised their business judgment are</p> <p>3 your forecasts based on?</p> <p>4 <b>A. In terms of whether -- understanding the</b></p> <p>5 <b>assumptions that were in here, Kevyn Orr, you</b></p> <p>6 <b>know, John Hill. So, I mean, Brent, who is a</b></p> <p>7 <b>former budget director. There were several folks</b></p> <p>8 <b>who at least understood the broad assumptions that</b></p> <p>9 <b>are in the forecast.</b></p> <p>10 Q. And how does the business judgment of</p> <p>11 Detroit officials impact your assumptions, or in</p> <p>12 what way were you using that?</p> <p>13 <b>A. Could you repeat that question for me,</b></p> <p>14 <b>please.</b></p> <p>15 Q. How did business judgment of City</p> <p>16 officials play into your forecasts?</p> <p>17 <b>A. So -- and maybe I should have asked this</b></p> <p>18 <b>earlier. Can you just -- what do you mean by</b></p> <p>19 <b>"business judgment of the City officials" in the</b></p> <p>20 <b>context of the forecast? Can you just give me</b></p> <p>21 <b>a --</b></p> <p>22 Q. Well, I read your prior depositions, and</p> <p>23 I think you had said that you relied on the</p> <p>24 business judgment of City officials. So I'm</p> <p>25 trying to use your term, and I'll ask you to</p>	<p style="text-align: right;">Page 83</p> <p>1 MALHOTRA</p> <p>2 period, there may be different decision-makers who</p> <p>3 are responsible for determining Detroit's policies</p> <p>4 than the current decision-makers; correct?</p> <p>5 <b>A. That's right. I think there's going to</b></p> <p>6 <b>be some form of a govern -- an advisory board.</b></p> <p>7 <b>But, yes, there will be -- you know, as people</b></p> <p>8 <b>transition into new roles, with any organization,</b></p> <p>9 <b>there would be new people coming in to fill those</b></p> <p>10 <b>roles.</b></p> <p>11 Q. And the new people who are in charge of</p> <p>12 Detroit during the 10-year period may decide to</p> <p>13 embark on different policies choices than you've</p> <p>14 assumed in your forecasts; correct?</p> <p>15 <b>A. They may or may not. I cannot speculate</b></p> <p>16 <b>what they decide to do.</b></p> <p>17 Q. It would require you to speculate to</p> <p>18 determine what policy choices Detroit's future</p> <p>19 leaders will make during the next 10 years;</p> <p>20 correct?</p> <p>21 <b>A. That's right. It would be speculating</b></p> <p>22 <b>on that point.</b></p> <p>23 Q. And, in fact, it's possible that there</p> <p>24 will be corrupt individuals who will be making</p> <p>25 policy choices for Detroit in the future; correct?</p>
<p style="text-align: right;">Page 82</p> <p>1 MALHOTRA</p> <p>2 elaborate on that.</p> <p>3 <b>A. Okay. So could you ask me the question</b></p> <p>4 <b>again, please.</b></p> <p>5 Q. I'm just asking, how did -- I guess</p> <p>6 what -- what -- when -- it would be fair to say</p> <p>7 that the assumptions in your forecast depend on</p> <p>8 certain policy choices by Detroit officials;</p> <p>9 correct?</p> <p>10 <b>A. Yes.</b></p> <p>11 Q. And, currently, the City is being run by</p> <p>12 an emergency manager; correct?</p> <p>13 <b>A. That is correct, for -- the -- for some</b></p> <p>14 <b>part. I think they're sharing with Detroit's</b></p> <p>15 <b>mayor and city council for certain aspects, but,</b></p> <p>16 <b>yeah.</b></p> <p>17 Q. And the emergency manager is going to</p> <p>18 leave in the fall; is that your understanding?</p> <p>19 <b>A. That's what's reported in the press.</b></p> <p>20 <b>That's what I read.</b></p> <p>21 Q. Is that consistent with whatever</p> <p>22 information you have working for the City?</p> <p>23 <b>A. I do not have any other information</b></p> <p>24 <b>other than what I've read in the press.</b></p> <p>25 Q. And in the future during the ten-year</p>	<p style="text-align: right;">Page 84</p> <p>1 MALHOTRA</p> <p>2 <b>A. I cannot answer that.</b></p> <p>3 Q. That's a possibility, isn't it?</p> <p>4 <b>A. Anything is a possibility.</b></p> <p>5 Q. And, in fact, in the past, there have</p> <p>6 been corrupt individuals who have made policy</p> <p>7 decisions for the City of Detroit; correct?</p> <p>8 <b>A. I read what's in the press, but I do not</b></p> <p>9 <b>know what policy decisions have been made in the</b></p> <p>10 <b>context of the general fund, so I cannot comment</b></p> <p>11 <b>on that.</b></p> <p>12 Q. Well, I mean, there have been people</p> <p>13 that have went to jail who were leaders of the</p> <p>14 City of Detroit in the recent past; correct?</p> <p>15 <b>A. I've seen the press on that.</b></p> <p>16 Q. And so it's not outside the realm of</p> <p>17 possibility that there might be individuals who</p> <p>18 are engaged in criminal activity or corrupt</p> <p>19 practices who are making policy decisions for</p> <p>20 Detroit during the next 10 or 40 years; correct?</p> <p>21 <b>A. You can make any possibility that you</b></p> <p>22 <b>want. I do not know about any -- I don't want to</b></p> <p>23 <b>comment on that specific possibility or -- which</b></p> <p>24 <b>is just, you know, a possibility of anything.</b></p> <p>25 Q. Okay. But you'd agree it's possible</p>

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<p style="text-align: right;">Page 85</p> <p>1 MALHOTRA</p> <p>2 that corrupt or criminal activity may be engaged</p> <p>3 in by Detroit's leaders during the period of your</p> <p>4 forecast; correct?</p> <p>5 <b>A. You know what? There's a possibility.</b></p> <p>6 <b>Anything can happen.</b></p> <p>7 Q. The assumptions in your model you</p> <p>8 mentioned had changed because of certain</p> <p>9 settlements; correct?</p> <p>10 <b>A. That is correct.</b></p> <p>11 Q. Are there changes that have been made to</p> <p>12 the assumptions in your model over time that are</p> <p>13 not the result of settlements?</p> <p>14 <b>A. Yes.</b></p> <p>15 Q. And what kinds of changes in the</p> <p>16 assumptions would those be?</p> <p>17 <b>A. It's based on getting updated</b></p> <p>18 <b>information. So, for instance, the stated -- the</b></p> <p>19 <b>state budget was approved for fiscal year '15 just</b></p> <p>20 <b>recently, because of which we had not initially</b></p> <p>21 <b>updated the State aid number. But we went ahead</b></p> <p>22 <b>and did so in the July 2nd update because we</b></p> <p>23 <b>received confirmation from the State that the</b></p> <p>24 <b>budget had been approved. And the incremental</b></p> <p>25 <b>State aid appropriation used the same methodology.</b></p>	<p style="text-align: right;">Page 87</p> <p>1 MALHOTRA</p> <p>2 BY MR. SMITH:</p> <p>3 Q. Well, I guess -- I guess I'm asking you:</p> <p>4 How would you define "material"?</p> <p>5 <b>A. Well, settlement, the settlements we</b></p> <p>6 <b>have reached or the City has reached are material.</b></p> <p>7 Q. Are there other material changes?</p> <p>8 <b>A. I would have to go back and look at the</b></p> <p>9 <b>bridge. But in my view, the major changes that</b></p> <p>10 <b>have happened are in context of the settlement.</b></p> <p>11 <b>And, of course, there have been changes, some that</b></p> <p>12 <b>make the forecast better, some that make the</b></p> <p>13 <b>forecast slightly worse so -- which at times may</b></p> <p>14 <b>or may not fully offset.</b></p> <p>15 <b>But the big changes that have been</b></p> <p>16 <b>incorporated into the forecast that I know of are</b></p> <p>17 <b>the settlements. Some of the timing of the</b></p> <p>18 <b>expenses have changed. But the biggest crux of</b></p> <p>19 <b>the changes have been the settlements.</b></p> <p>20 Q. Okay. But outside of the settlements,</p> <p>21 there have been big changes to the model that</p> <p>22 don't have to do with the settlements; is that</p> <p>23 fair?</p> <p>24 MR. STEWART: Objection.</p> <p>25 THE WITNESS: Could you define what you</p>
<p style="text-align: right;">Page 86</p> <p>1 MALHOTRA</p> <p>2 <b>So the methodology did not change from what it was</b></p> <p>3 <b>in the past; but basically now that we had a</b></p> <p>4 <b>source of data that had been confirmed, we updated</b></p> <p>5 <b>that.</b></p> <p>6 <b>We updated the assumptions with regards</b></p> <p>7 <b>to what the City would offer potentially for DPOA</b></p> <p>8 <b>and DFFA, even though there was not a settlement</b></p> <p>9 <b>with them, but using the assumption that the cost</b></p> <p>10 <b>would be the same as it was with DPLSA and DPCOA.</b></p> <p>11 <b>For property taxes, we received the latest</b></p> <p>12 <b>information with respect to the State equalized</b></p> <p>13 <b>value and updated the model based on that latest</b></p> <p>14 <b>information that we had received. Again, not</b></p> <p>15 <b>changing methodology.</b></p> <p>16 <b>So when we receive updated information</b></p> <p>17 <b>with respect to firming up a recent trend better</b></p> <p>18 <b>so that we can extrapolate, those are some of the</b></p> <p>19 <b>examples that we've used.</b></p> <p>20 Q. Would it be fair to say that there have</p> <p>21 been a number of material changes in the model</p> <p>22 since you first created it for your forecast?</p> <p>23 MR. STEWART: Objection.</p> <p>24 THE WITNESS: How do you define</p> <p>25 "material"?</p>	<p style="text-align: right;">Page 88</p> <p>1 MALHOTRA</p> <p>2 define as "big" in this context.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. Well, you just mentioned we're talking</p> <p>5 about big changes, so --</p> <p>6 <b>A. So we're talking about big settlements,</b></p> <p>7 <b>I thought. Those are the big changes.</b></p> <p>8 Q. What are the most significant changes to</p> <p>9 the model outside of the settlements that have</p> <p>10 impacted the dollar amounts?</p> <p>11 <b>A. So I would say we have gone ahead and</b></p> <p>12 <b>updated the State aid revenue. We have gone ahead</b></p> <p>13 <b>and updated the property tax revenue. We have</b></p> <p>14 <b>updated the casino taxes. We have updated from</b></p> <p>15 <b>what we received, some of the reorganization and</b></p> <p>16 <b>reinvestment timing. And these are, again -- you</b></p> <p>17 <b>know, compared to the plan of adjustment that was</b></p> <p>18 <b>filed on May 5th.</b></p> <p>19 <b>We've updated some of the financing</b></p> <p>20 <b>changes in terms of the assumptions on the</b></p> <p>21 <b>financing.</b></p> <p>22 <b>I'm trying to think what else is not</b></p> <p>23 <b>settlement-related.</b></p> <p>24 <b>Those are the big ones that come to my</b></p> <p>25 <b>mind right now.</b></p>

<p style="text-align: right;">Page 89</p> <p>1                   <b>MALHOTRA</b></p> <p>2           Q. And when you say "the financing," are</p> <p>3 you talking about the exit financing?</p> <p>4           <b>A. That's right.</b></p> <p>5           Q. Those assumptions for the exit financing</p> <p>6 have changed since the plan of adjustment; is that</p> <p>7 correct?</p> <p>8           <b>A. The assumptions with respect to the term</b></p> <p>9 <b>of the amortization, yes, has been changed.</b></p> <p>10          Q. Okay. As far as you know, has the City</p> <p>11 secured exit financing from anybody?</p> <p>12          <b>A. Not as of now, is my understanding, but</b></p> <p>13 <b>Miller Buckfire has a better idea of that.</b></p> <p>14          Q. And an assumption of your forecast is</p> <p>15 the City will be able to obtain exit financing on</p> <p>16 the terms you assume; correct?</p> <p>17          <b>A. That is the current assumption in the</b></p> <p>18 <b>forecast; you are correct.</b></p> <p>19          Q. And the forecast, would it be fair to</p> <p>20 say, would change by hundreds of millions of</p> <p>21 dollars if no exit financing were obtained?</p> <p>22          <b>A. If you can be more specific. The</b></p> <p>23 <b>revenues would change, but over what time frame?</b></p> <p>24          Q. I see what you're saying. I mean the</p> <p>25 exit financing is necessary for the City to emerge</p>	<p style="text-align: right;">Page 91</p> <p>1                   <b>MALHOTRA</b></p> <p>2 identify any creditor, any lender that's willing</p> <p>3 to offer the City exit financing on the terms</p> <p>4 you've assumed; correct?</p> <p>5           <b>A. The RFP just went out last week, but I</b></p> <p>6 <b>do not know of any as of now.</b></p> <p>7          Q. Did you have any role in the RFP for the</p> <p>8 exit financing? Did Ernst &amp; Young have any role?</p> <p>9           <b>A. It -- just to clarify and, you know,</b></p> <p>10 <b>talked to the Miller Buckfire team about the</b></p> <p>11 <b>assumptions that were in the forecast overall, but</b></p> <p>12 <b>we did not create the RFP.</b></p> <p>13          Q. Okay. But you've reviewed the RFP?</p> <p>14           <b>A. I have looked at some of the main items</b></p> <p>15 <b>that were sent out -- that were going to be sent</b></p> <p>16 <b>out as a part of the RFP. I have an email on</b></p> <p>17 <b>that, yes.</b></p> <p>18          Q. But have you reviewed the entire</p> <p>19 document or not?</p> <p>20           <b>A. I have reviewed some of the terms, but I</b></p> <p>21 <b>do not know if I've reviewed the entire document.</b></p> <p>22 <b>I can't recall.</b></p> <p>23          Q. Would it be fair to say that you would</p> <p>24 expect that if you if you were doing your forecast</p> <p>25 a year or two from now, that the results of the</p>
<p style="text-align: right;">Page 90</p> <p>1                   <b>MALHOTRA</b></p> <p>2 from bankruptcy; correct?</p> <p>3           <b>A. I don't know about necessary or not</b></p> <p>4 <b>necessary. I can talk about the assumptions that</b></p> <p>5 <b>have been made with respect to the sources and</b></p> <p>6 <b>uses of the financing. But I wouldn't comment on</b></p> <p>7 <b>the necessary for exit versus not.</b></p> <p>8          Q. Were the assumptions for the exit</p> <p>9 financing you used just numbers that were given to</p> <p>10 you by Miller Buckfire?</p> <p>11          <b>A. The exit financing, yes. We had some</b></p> <p>12 <b>discussions with Miller Buckfire and with Jim Doak</b></p> <p>13 <b>from Miller Buckfire that I spoke to several</b></p> <p>14 <b>times. And then we used the input that was</b></p> <p>15 <b>provided by them to come up with the exit</b></p> <p>16 <b>financing that's in --</b></p> <p>17          Q. But you haven't actually spoken with any</p> <p>18 potential lender who is interested in giving</p> <p>19 Detroit exit financing; correct?</p> <p>20          <b>A. I have not; correct.</b></p> <p>21          Q. And you can't identify any potential</p> <p>22 lender who is interested in giving Detroit</p> <p>23 financing, can you?</p> <p>24          <b>A. That is something Buckfire is running.</b></p> <p>25          Q. But you don't have knowledge, even can't</p>	<p style="text-align: right;">Page 92</p> <p>1                   <b>MALHOTRA</b></p> <p>2 forecast would be different than your current</p> <p>3 forecast?</p> <p>4           <b>A. It depends.</b></p> <p>5          Q. There's no way you can tell me whether</p> <p>6 the forecast that you have today will be the same</p> <p>7 in a year or two from now; is that fair?</p> <p>8           <b>A. Yeah. It depends. Revenue -- if some</b></p> <p>9 <b>of the revenues change, do the expenses change or</b></p> <p>10 <b>do they offset? I don't know, but that's what --</b></p> <p>11 <b>after two years, a forecast becomes an actual.</b></p> <p>12 <b>And then you have actuals. You don't have a</b></p> <p>13 <b>forecast for two years.</b></p> <p>14          Q. Yeah. But the forecast, I mean, for the</p> <p>15 remaining eight years, for example, I mean,</p> <p>16 there's no way you can represent to the Court, for</p> <p>17 example, that, you know, a year or two from now</p> <p>18 your forecast would be the same for the remaining</p> <p>19 years in the term of the 10-year period; correct?</p> <p>20           <b>A. I cannot -- I cannot say that after two</b></p> <p>21 <b>years ever single line item will be exactly the</b></p> <p>22 <b>same as what it is in the forecast; that is</b></p> <p>23 <b>correct.</b></p> <p>24          Q. And you can't say that the total amounts</p> <p>25 for revenue and expenditure will be the same;</p>

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<p style="text-align: right;">Page 93</p> <p>1 MALHOTRA</p> <p>2 correct?</p> <p>3 <b>A. Two years from now, I cannot predict</b></p> <p>4 <b>that every single line item of revenues and</b></p> <p>5 <b>expenses will be exactly the same as it is in the</b></p> <p>6 <b>forecast today.</b></p> <p>7 Q. And you also -- you can't predict that</p> <p>8 two years from now the total amount of revenue and</p> <p>9 expenditures will be the same as it is in the</p> <p>10 model today; correct?</p> <p>11 <b>A. In two years I cannot say whether the</b></p> <p>12 <b>exact total of the revenues for that 10 years will</b></p> <p>13 <b>be exactly the same or if the exact -- expenses</b></p> <p>14 <b>will be exactly the same or if they offset each</b></p> <p>15 <b>other. I cannot tell.</b></p> <p>16 Q. How many inputs and assumptions are</p> <p>17 there in your model?</p> <p>18 <b>A. There are -- we can go through the line</b></p> <p>19 <b>items, and I can talk to you about the</b></p> <p>20 <b>assumptions. But there's a lot of line items, and</b></p> <p>21 <b>there's assumptions in there. So --</b></p> <p>22 Q. Well, are there --</p> <p>23 <b>A. -- I don't have the number of</b></p> <p>24 <b>assumptions.</b></p> <p>25 Q. Are there more than 100 assumptions and</p>	<p style="text-align: right;">Page 95</p> <p>1 MALHOTRA</p> <p>2 keep breaking on the hour. There are lots of</p> <p>3 questions and people have planes to catch.</p> <p>4 (Discussion off the stenographic</p> <p>5 record.)</p> <p>6 THE VIDEOGRAPHER: Going off the record</p> <p>7 at 10:59.</p> <p>8 (Short break taken.)</p> <p>9 THE VIDEOGRAPHER: We are back on the</p> <p>10 record at 11:05.</p> <p>11 BY MR. SMITH:</p> <p>12 Q. Mr. Malhotra, can you identify any time</p> <p>13 where Ernst &amp; Young has ever done a forecast for a</p> <p>14 city that's as long as 10 years?</p> <p>15 <b>A. I have not. I do not know about Ernst &amp;</b></p> <p>16 <b>Young. I mean, request practice or other tax</b></p> <p>17 <b>practices --</b></p> <p>18 Q. Sitting here today, though, you can't</p> <p>19 identify any such instance; correct?</p> <p>20 <b>A. I do not know what -- it's a large firm,</b></p> <p>21 <b>and I do not know -- I can tell you that -- I have</b></p> <p>22 <b>not done a 40-year for a city before.</b></p> <p>23 Q. And in your forecast, you haven't</p> <p>24 included funds necessary for Ernst &amp; Young to</p> <p>25 update the ten-year forecast after the bankruptcy;</p>
<p style="text-align: right;">Page 94</p> <p>1 MALHOTRA</p> <p>2 inputs?</p> <p>3 <b>A. I do not know if there are over a</b></p> <p>4 <b>hundred assumptions or -- I mean, it's -- if there</b></p> <p>5 <b>are over 100 discrete assumptions or not. I would</b></p> <p>6 <b>say that some of these are basic extrapolations of</b></p> <p>7 <b>what has happened in fiscal year '12 or '13,</b></p> <p>8 <b>continuing. Some of these are directly picked up</b></p> <p>9 <b>from a third-party data source. So I'm -- you see</b></p> <p>10 <b>my -- I'm just like --</b></p> <p>11 Q. I'm saying assumptions or inputs to</p> <p>12 cover all these things. Would there be more than</p> <p>13 100 assumptions or inputs in your model?</p> <p>14 <b>A. I cannot tell.</b></p> <p>15 MR. SMITH: We should take another</p> <p>16 break.</p> <p>17 MR. STEWART: Okay. That's fine. We</p> <p>18 haven't even been on the record an hour.</p> <p>19 MR. SMITH: Okay. Well, I'm not</p> <p>20 requesting it, Geoff, so if you want to</p> <p>21 complain about it --</p> <p>22 MR. STEWART: It's okay.</p> <p>23 THE COURT REPORTER: I thought it was</p> <p>24 about an hour, and I --</p> <p>25 MR. STEWART: It's okay, but we can't</p>	<p style="text-align: right;">Page 96</p> <p>1 MALHOTRA</p> <p>2 correct?</p> <p>3 <b>A. There is not a specific line item that</b></p> <p>4 <b>has been called out for ongoing professional fees</b></p> <p>5 <b>for EY in the context of updating the forecast.</b></p> <p>6 Q. And you haven't included funds for</p> <p>7 Conway MacKenzie or any other advisers to do work</p> <p>8 on a forecast going forward after the bankruptcy;</p> <p>9 is that correct?</p> <p>10 <b>A. In -- in context of the -- specifically</b></p> <p>11 <b>the restructuring advisers currently, we</b></p> <p>12 <b>haven't -- we do not have a specific discrete line</b></p> <p>13 <b>item to identify incremental fees for EY or Conway</b></p> <p>14 <b>MacKenzie.</b></p> <p>15 Q. And have you assumed -- have you</p> <p>16 included any professional fees for Conway</p> <p>17 MacKenzie after the bankruptcy has concluded, in</p> <p>18 your forecast?</p> <p>19 <b>A. Whether it is specifically included as a</b></p> <p>20 <b>discrete line item or if it could be absorbed in</b></p> <p>21 <b>some of the actual project implementation costs</b></p> <p>22 <b>for both EY and Conway MacKenzie, it's something</b></p> <p>23 <b>that we would have to work through.</b></p> <p>24 <b>But I do not have a specific line item,</b></p> <p>25 <b>and the restructuring professional fees line for</b></p>

<p style="text-align: right;">Page 97</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>ongoing assistance beyond the bankruptcy if there</b></p> <p>3 <b>is ongoing work and if there's a possibility that</b></p> <p>4 <b>within the different projects those fees get</b></p> <p>5 <b>absorbed, I do not know yet.</b></p> <p>6 Q. As the forecast stands now, you don't</p> <p>7 have any money in the forecast currently for</p> <p>8 ongoing work after the bankruptcy by Ernst &amp; Young</p> <p>9 or Conway MacKenzie; is that fair?</p> <p>10 <b>A. I thought I just answered that: If it</b></p> <p>11 <b>isn't -- if it could be embedded in the individual</b></p> <p>12 <b>implementation projects of the restructuring,</b></p> <p>13 <b>that's something we'll have to see.</b></p> <p>14 <b>You are right. I do not have any</b></p> <p>15 <b>restructuring professional fees in that line item,</b></p> <p>16 <b>any more fees beyond the restructuring period.</b></p> <p>17 Q. Okay. I mean, there's no -- you're not</p> <p>18 assuming that -- Ernst &amp; Young or Conway MacKenzie</p> <p>19 will continue work for the City after the</p> <p>20 bankruptcy, in your forecast?</p> <p>21 <b>A. That's not true.</b></p> <p>22 Q. Okay. How are you -- I mean, are you</p> <p>23 assuming one way or the other?</p> <p>24 <b>A. Well, EY, as I've already mentioned to</b></p> <p>25 <b>you, is going to continue work on the HR</b></p>	<p style="text-align: right;">Page 99</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Well, any -- I mean, some of the,</p> <p>3 quote/unquote, restructuring activities I've seen</p> <p>4 are things like make operations more efficient or,</p> <p>5 you know, things like that.</p> <p>6 <b>A. Things like what?</b></p> <p>7 Q. Well, why don't I ask you this: Do you</p> <p>8 agree that there are some restructuring activities</p> <p>9 the City is planning to undertake that would save</p> <p>10 money?</p> <p>11 <b>A. Yes.</b></p> <p>12 Q. And do you agree that there's some</p> <p>13 restructuring activities the City is planning to</p> <p>14 undertake that would, on balance, lead to</p> <p>15 increases in revenue for the City?</p> <p>16 <b>A. Could you ask me that again.</b></p> <p>17 Q. Are there some restructuring activities</p> <p>18 the City is planning to undertake that would, upon</p> <p>19 balance, lead to increases in revenue for the</p> <p>20 City?</p> <p>21 <b>A. There are some restructuring and</b></p> <p>22 <b>reinvestment initiatives that will lead to</b></p> <p>23 <b>increased revenues for the City.</b></p> <p>24 Q. And there are restructuring activities</p> <p>25 that will bring in more revenue than they will</p>
<p style="text-align: right;">Page 98</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>implementation project, and the fees for that will</b></p> <p>3 <b>likely come out of the HR implementation budget.</b></p> <p>4 Q. What is the HR implementation project?</p> <p>5 <b>A. It's to help the City transition its</b></p> <p>6 <b>existing payroll systems to a new system.</b></p> <p>7 Q. Is the City -- the City is still</p> <p>8 producing one-year budgets, correct? Is that</p> <p>9 correct or -- or not?</p> <p>10 <b>A. I think they are still going through</b></p> <p>11 <b>this interim process of a one-year budget, I</b></p> <p>12 <b>believe. But I need to make sure that they're</b></p> <p>13 <b>still doing one year or is it just the three years</b></p> <p>14 <b>and the one year is a component of that.</b></p> <p>15 Q. In the ordinary course of its business</p> <p>16 operations, the City is currently doing only</p> <p>17 three-year budgets or potentially one-year</p> <p>18 budgets; is that correct?</p> <p>19 <b>A. That would be correct.</b></p> <p>20 Q. Do you agree that there's some</p> <p>21 restructuring and restructuring activities the</p> <p>22 City is planning to undertake that don't cost any</p> <p>23 money, such as changing policies or things like</p> <p>24 that?</p> <p>25 <b>A. Changing what policies?</b></p>	<p style="text-align: right;">Page 100</p> <p>1 <b>MALHOTRA</b></p> <p>2 cost; correct?</p> <p>3 <b>A. It depends on what time frame.</b></p> <p>4 Q. Well, but there were some restructuring</p> <p>5 activities the City is going to undertake where</p> <p>6 the benefits in terms of increased revenue, where</p> <p>7 a reduction in costs outweigh the costs of the</p> <p>8 initiative; correct?</p> <p>9 <b>A. It depends on what time frame, because</b></p> <p>10 <b>you have to see when -- the overall result in</b></p> <p>11 <b>increased revenues compared to the costs incurred.</b></p> <p>12 Q. Yeah. At the end of the -- over the</p> <p>13 course of your projections; right? Over the</p> <p>14 course of your 10-year projection, there are</p> <p>15 restructuring activities where the benefits</p> <p>16 outweigh the costs of the restructuring activity;</p> <p>17 correct?</p> <p>18 <b>A. I'm not sure about that. There's a</b></p> <p>19 <b>billion four in restructuring and reinvestment</b></p> <p>20 <b>costs. And I don't know if over the ten years if</b></p> <p>21 <b>there is a billion four of revenue.</b></p> <p>22 Q. Okay. So the City isn't -- you would</p> <p>23 agree with me that the City is engaging in some</p> <p>24 restructuring activities that have a -- that have</p> <p>25 a negative cost benefit; correct?</p>

<p style="text-align: right;">Page 101</p> <p>1 MALHOTRA</p> <p>2 <b>A. Maybe over 10 years, but it probably</b></p> <p>3 <b>changes over 40 years to -- for the revenues to</b></p> <p>4 <b>get better.</b></p> <p>5 Q. You agree -- you know that the City is</p> <p>6 planning to spend hundreds of millions of dollars</p> <p>7 on blight reduction; correct?</p> <p>8 <b>A. That's correct. There's \$420 million in</b></p> <p>9 <b>the current forecast, 50 million of which is going</b></p> <p>10 <b>to be reimbursed by the hardest-hit funds.</b></p> <p>11 Q. Okay. And do you know -- has the amount</p> <p>12 of blight reduction funding decreased over the</p> <p>13 course of your forecast, the various iterations?</p> <p>14 <b>A. I believe we had a number of, close to</b></p> <p>15 <b>\$500 million earlier. That went down to</b></p> <p>16 <b>420 million.</b></p> <p>17 Q. Do you know why there was a reduction?</p> <p>18 <b>A. There was a reduction because of the</b></p> <p>19 <b>overall level of contributions the City was</b></p> <p>20 <b>committing to the pension systems.</b></p> <p>21 Q. Okay. So did the -- the</p> <p>22 blight-reduction funds, were they reduced because</p> <p>23 the City was increasing contributions to pensions?</p> <p>24 <b>A. I don't know if it was only that or if</b></p> <p>25 <b>it was the -- I don't know if that was the only</b></p>	<p style="text-align: right;">Page 103</p> <p>1 MALHOTRA</p> <p>2 <b>A. Over the 10-year period, I do not -- of</b></p> <p>3 <b>the net 350 million that the City is spending, I</b></p> <p>4 <b>would have to go back and look exactly how much</b></p> <p>5 <b>increased revenue between all of the different</b></p> <p>6 <b>initiatives has been included.</b></p> <p>7 <b>But over 40 years, if you were to</b></p> <p>8 <b>extrapolate, you know, I think the increased</b></p> <p>9 <b>revenues would be higher. But I do not know</b></p> <p>10 <b>exactly. It would be easier to look at the</b></p> <p>11 <b>exhibits and then walk through it.</b></p> <p>12 Q. Okay. But sitting here today, you</p> <p>13 understand that over the 10-year period, the costs</p> <p>14 of blight reduction exceed any benefits; correct?</p> <p>15 MR. STEWART: Objection.</p> <p>16 THE WITNESS: No, I don't. Exceed any</p> <p>17 benefits?</p> <p>18 BY MR. SMITH:</p> <p>19 Q. You agree that the costs of blight</p> <p>20 reduction exceed any revenues for cost reductions</p> <p>21 that the City attributes to blight reduction over</p> <p>22 the 10-year period; correct?</p> <p>23 <b>A. In a direct financial standpoint from</b></p> <p>24 <b>what I can relate it to, the answer is correct.</b></p> <p>25 <b>Because there's probably indirect benefits of</b></p>
<p style="text-align: right;">Page 102</p> <p>1 MALHOTRA</p> <p>2 <b>reason. But, yes, that's one I recall in which</b></p> <p>3 <b>the \$500 million went down to 420.</b></p> <p>4 Q. Was one factor in the reduction of the</p> <p>5 blight expenditure the City's decision to increase</p> <p>6 money to the pensions?</p> <p>7 <b>A. It was to not increase money to the</b></p> <p>8 <b>pensions. It was for the City to reach a</b></p> <p>9 <b>settlement on the pensions and the amount of money</b></p> <p>10 <b>that was required.</b></p> <p>11 Q. And are you incorporating into your</p> <p>12 forecast any increase in revenue or decrease in</p> <p>13 the costs attributable to blight-reduction efforts</p> <p>14 by the City?</p> <p>15 <b>A. I believe that in the restructuring and</b></p> <p>16 <b>reinvestment scenario, there is an overall</b></p> <p>17 <b>increase in the revenues that has been assumed</b></p> <p>18 <b>from the overall restructuring and reinvestment</b></p> <p>19 <b>initiatives.</b></p> <p>20 Q. Do you agree that the costs of the</p> <p>21 blight reduction outweigh any revenues or cost</p> <p>22 reductions that you've incorporated into your</p> <p>23 forecast?</p> <p>24 <b>A. Over what time frame?</b></p> <p>25 Q. Either the 10- or 40-year period.</p>	<p style="text-align: right;">Page 104</p> <p>1 MALHOTRA</p> <p>2 <b>blight removal, which I cannot talk about.</b></p> <p>3 <b>But from a direct-blight standpoint,</b></p> <p>4 <b>it's -- I know the City has increased revenues</b></p> <p>5 <b>towards the last five years of the first ten. If</b></p> <p>6 <b>you look at that run rate, it's the -- the blight</b></p> <p>7 <b>expenditures that have being spent could</b></p> <p>8 <b>theoretically be reimbursed -- you know, be</b></p> <p>9 <b>recuperated sooner.</b></p> <p>10 <b>But -- so it's just -- I don't have a</b></p> <p>11 <b>direct answer, because you're spending the money</b></p> <p>12 <b>over 10 years and there's increased revenues over</b></p> <p>13 <b>the first 10 years; but the run rate in the last</b></p> <p>14 <b>five years is much higher than it is in the first</b></p> <p>15 <b>five years. I don't know if that answers your</b></p> <p>16 <b>question.</b></p> <p>17 Q. Yeah, but the total amount, if you</p> <p>18 calculate up the total amount -- well, first, let</p> <p>19 me ask you this. You say increase in revenues.</p> <p>20 There's -- is there a line item for increase in</p> <p>21 revenues specifically from blight reduction, or is</p> <p>22 it increase in revenue from all the reinvestment</p> <p>23 activities?</p> <p>24 <b>A. It's the latter. It's broken out --</b></p> <p>25 <b>well, there's three items. There's a discrete</b></p>

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<p style="text-align: right;">Page 105</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>line item for increased revenue due to the</b></p> <p>3 <b>operational-driven initiatives. There is a</b></p> <p>4 <b>discrete line item, then, of increased tax</b></p> <p>5 <b>revenues because of overall restructuring and</b></p> <p>6 <b>reinvestment initiatives, which also includes</b></p> <p>7 <b>blight.</b></p> <p>8 Q. So there's no line item specifically</p> <p>9 quantifying any revenue increase from blight</p> <p>10 reduction in your model; correct?</p> <p>11 <b>A. There is not a discrete line item. It</b></p> <p>12 <b>would be a combination of the increased revenues</b></p> <p>13 <b>as a part of the restructuring scenario.</b></p> <p>14 Q. Okay. But some of the increase in</p> <p>15 revenue is attributable to other restructuring</p> <p>16 activities other than blight; correct?</p> <p>17 <b>A. That would be a fair assumption.</b></p> <p>18 Q. And so you haven't tried to quantify the</p> <p>19 increase in revenues or decrease in costs solely</p> <p>20 attributable to blight reduction; correct?</p> <p>21 <b>A. That is correct.</b></p> <p>22 Q. And so sitting here today, the cost of</p> <p>23 blight reduction looks like it will be greater</p> <p>24 than any revenue or cost reductions attributable</p> <p>25 to the entire reinvestment initiative?</p>	<p style="text-align: right;">Page 107</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>revenues, blight is a part of those reinvestment</b></p> <p>3 <b>expenditures.</b></p> <p>4 Q. But nobody -- you haven't done any</p> <p>5 analysis specifically on blight reduction,</p> <p>6 correct, to find out what -- what amount of</p> <p>7 revenue generation or cost reduction is</p> <p>8 specifically attributable to blight reduction;</p> <p>9 correct?</p> <p>10 <b>A. It's a part of the overall restructuring</b></p> <p>11 <b>and reinvestment initiatives.</b></p> <p>12 Q. So you haven't done that analysis;</p> <p>13 correct?</p> <p>14 <b>A. If you're saying is what is the discrete</b></p> <p>15 <b>item about blight, I would have to go back and</b></p> <p>16 <b>look at it as to which line items it would likely</b></p> <p>17 <b>impact and over what time frame.</b></p> <p>18 Q. But you haven't done that analysis?</p> <p>19 <b>A. Well, not -- not in a direct fashion,</b></p> <p>20 <b>no.</b></p> <p>21 Q. Okay. And so you're not aware of any</p> <p>22 analysis -- I mean, Mr. Moore in his report, do</p> <p>23 you recall what he says? You can't quantify the</p> <p>24 amount of revenue that might be attributable to</p> <p>25 blight reduction?</p>
<p style="text-align: right;">Page 106</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. No.</b></p> <p>3 Q. Would it be fair to say that you can't</p> <p>4 represent to the Court that the cost of blight</p> <p>5 reduction will be lower than any revenues or cost</p> <p>6 reductions attributable to the blight reduction?</p> <p>7 <b>A. You got to ask me that again.</b></p> <p>8 Q. Well, we've already established you</p> <p>9 haven't done any analysis of the revenues or cost</p> <p>10 reductions attributable to blight reduction;</p> <p>11 correct?</p> <p>12 <b>A. I don't know. That's -- that's -- if --</b></p> <p>13 <b>I don't know about that.</b></p> <p>14 Q. Okay. And so sitting here today, I</p> <p>15 mean, there's no analysis that the City has done</p> <p>16 that shows that the costs of blight reduction are</p> <p>17 outweighed by revenue increases or cost reductions</p> <p>18 due to blight reduction; correct?</p> <p>19 <b>A. No. Over what time frame?</b></p> <p>20 Q. I mean, you haven't done any analysis of</p> <p>21 the revenues solely attributable to blight</p> <p>22 reduction; correct?</p> <p>23 <b>A. The overall -- I thought I said this.</b></p> <p>24 <b>The overall restructuring and reinvestment</b></p> <p>25 <b>initiatives in the revenue -- in the increase in</b></p>	<p style="text-align: right;">Page 108</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>MR. STEWART: Objection.</b></p> <p>3 <b>BY MR. SMITH:</b></p> <p>4 Q. Do you recall that?</p> <p>5 <b>A. Which report?</b></p> <p>6 Q. His expert report in this case.</p> <p>7 <b>A. I have not read his expert report.</b></p> <p>8 Q. Have you read the expert reports of</p> <p>9 Cline or Sallee?</p> <p>10 <b>A. I have them. I've not read through</b></p> <p>11 <b>them.</b></p> <p>12 Q. Have you read the expert reports of any</p> <p>13 expert in this case?</p> <p>14 <b>A. I glanced at Ken Buckfire's report.</b></p> <p>15 Q. Is that the only one?</p> <p>16 <b>A. That's the only one that comes to mind.</b></p> <p>17 Q. Okay. The baseline forecast is a</p> <p>18 steady-state forecast that depicts the City's</p> <p>19 financial projection in the absence of</p> <p>20 restructuring or reinvestment; correct?</p> <p>21 <b>A. That is generally true. It's based on</b></p> <p>22 <b>the recent extrapolated results, assuming they</b></p> <p>23 <b>hold, yes.</b></p> <p>24 Q. Okay. And the baseline forecast assumes</p> <p>25 no reinvestment or restructuring expenditure;</p>

Pages 105 to 108

<p style="text-align: right;">Page 109</p> <p>1 MALHOTRA</p> <p>2 correct?</p> <p>3 <b>A. In the baseline model, those</b></p> <p>4 <b>restructuring and reinvestment initiatives are</b></p> <p>5 <b>broken out separately. So I don't know which line</b></p> <p>6 <b>item you're referring to. But on that particular</b></p> <p>7 <b>page, at least the one that comes to my mind, the</b></p> <p>8 <b>restructuring and reinvestment initiatives are</b></p> <p>9 <b>broken out separately.</b></p> <p>10 Q. Okay. I'm just trying to figure out</p> <p>11 whether the baseline scenario assumes that the</p> <p>12 1.25 billion, or whatever the amount is now for</p> <p>13 restructuring and reinvestment, will be spent or</p> <p>14 not.</p> <p>15 <b>A. No. That assumption was that that</b></p> <p>16 <b>amount will not be spent directly.</b></p> <p>17 Q. Do you agree that the baseline model</p> <p>18 doesn't include reinvestments like blight</p> <p>19 reduction; correct?</p> <p>20 <b>A. Yes. I mean, if -- it does not</b></p> <p>21 <b>discretely, if there was -- any additional funds</b></p> <p>22 <b>that -- like the hardest-hit funds that were made</b></p> <p>23 <b>available in the form of grants, those funds would</b></p> <p>24 <b>now be put into baseline because those hardest hit</b></p> <p>25 <b>funds aren't available. But the north of billion</b></p>	<p style="text-align: right;">Page 111</p> <p>1 MALHOTRA</p> <p>2 the state and federal government to fund</p> <p>3 blight-elimination efforts; correct?</p> <p>4 <b>A. I know about the hardest-hit funds that</b></p> <p>5 <b>are in the forecast. I do not know of other</b></p> <p>6 <b>specific blight-removal funding.</b></p> <p>7 Q. And the hardest-hit funds is \$52 million</p> <p>8 that the City had access to for blight reduction;</p> <p>9 is that correct?</p> <p>10 <b>A. Yeah. I don't know if the City has</b></p> <p>11 <b>access to directly -- I don't know the exact</b></p> <p>12 <b>funding mechanism; but that's the assumption, that</b></p> <p>13 <b>that money will be available to the City.</b></p> <p>14 Q. And the City has already been spending</p> <p>15 money on blight reduction; correct?</p> <p>16 <b>A. Yes.</b></p> <p>17 Q. And there's been nobody, to your</p> <p>18 knowledge, who has quantified any benefit in terms</p> <p>19 of revenue increase or cost reduction from the</p> <p>20 blight-elimination efforts the City has been</p> <p>21 engaged in so far; correct?</p> <p>22 <b>A. The increased revenues are a part of --</b></p> <p>23 <b>include a return on the restructuring and</b></p> <p>24 <b>reinvestment initiatives, which include blight.</b></p> <p>25 Q. Yeah. But in the blight-elimination</p>
<p style="text-align: right;">Page 110</p> <p>1 MALHOTRA</p> <p>2 <b>dollars of reinvestment expenditures were not</b></p> <p>3 <b>included in the baseline.</b></p> <p>4 Q. So the separate number of hundreds of</p> <p>5 millions of dollars for blight reduction that's in</p> <p>6 the restructuring scenario is not included in the</p> <p>7 baseline scenario; correct?</p> <p>8 <b>A. Those expenses were not included in the</b></p> <p>9 <b>baseline scenario; that is correct.</b></p> <p>10 Q. The City has been engaged in blight</p> <p>11 reduction for a few years; correct?</p> <p>12 <b>A. Yes. The City has had different</b></p> <p>13 <b>initiatives in terms of reducing the amount of</b></p> <p>14 <b>blight; however, new blight keeps coming up. So I</b></p> <p>15 <b>don't know whether the City actually ever gets</b></p> <p>16 <b>ahead or not.</b></p> <p>17 Q. Yeah. And one problem with blight is</p> <p>18 that blight is always generating more -- there's</p> <p>19 always more blight being created; correct?</p> <p>20 <b>A. It depends when you have, you know, a --</b></p> <p>21 <b>there is a churning effect, if that's what you're</b></p> <p>22 <b>talking about, that sometimes new blight does</b></p> <p>23 <b>replace old blight. But it -- yeah, that's --</b></p> <p>24 <b>that's accurate.</b></p> <p>25 Q. And the City has received grants from</p>	<p style="text-align: right;">Page 112</p> <p>1 MALHOTRA</p> <p>2 efforts that have already been undertaken, there's</p> <p>3 no study or data showing that those have increased</p> <p>4 City revenues or decreased costs, is there?</p> <p>5 <b>A. So of the blight-removal efforts that</b></p> <p>6 <b>have already been undertaken -- can you specify?</b></p> <p>7 <b>What time frame are you going back? Is it --</b></p> <p>8 Q. Over any time period. You've never seen</p> <p>9 any study or data that shows that</p> <p>10 blight-elimination efforts in the City of Detroit</p> <p>11 have resulted in revenue increases or cost</p> <p>12 reductions; correct?</p> <p>13 <b>A. I do not know of a direct study if</b></p> <p>14 <b>how -- taking down some of those properties has</b></p> <p>15 <b>had an impact on some of the property taxes or</b></p> <p>16 <b>not, if that is a study that directly correlates</b></p> <p>17 <b>it. I have not seen a study like that.</b></p> <p>18 Q. Okay. The baseline model that you've</p> <p>19 calculated assumes there won't be substantial</p> <p>20 investment in information technology; is that</p> <p>21 correct?</p> <p>22 <b>A. When you say "substantial," it does not</b></p> <p>23 <b>include -- the IT expense that's mentioned in the</b></p> <p>24 <b>restructuring and reinvestment initiatives is not</b></p> <p>25 <b>included in the baseline.</b></p>

Pages 109 to 112

<p style="text-align: right;">Page 113</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Does the baseline forecast include any</p> <p>3 cost savings the City has received as a result of</p> <p>4 the breathing spell provided by the bankruptcy</p> <p>5 petition?</p> <p>6 <b>A. The baseline model was used to reflect a</b></p> <p>7 <b>no-bankruptcy scenario and did incorporate the</b></p> <p>8 <b>10 percent wage cut that the employees have</b></p> <p>9 <b>already taken. So that was already reflected in</b></p> <p>10 <b>the baseline.</b></p> <p>11 Q. And the baseline scenario is not</p> <p>12 intended to be a measure of what happens if the</p> <p>13 bankruptcy petition is dismissed; correct?</p> <p>14 <b>A. Well, you have to look at the individual</b></p> <p>15 <b>line items, because I would say some of those line</b></p> <p>16 <b>items, it will be reflective of what happens maybe</b></p> <p>17 <b>if the bankruptcy proceedings are dismissed.</b></p> <p>18 Q. And some of the line items in the</p> <p>19 baseline scenario will not be reflective of what</p> <p>20 happens if the bankruptcy petition is dismissed;</p> <p>21 correct?</p> <p>22 <b>A. I would have to think through which of</b></p> <p>23 <b>those line items will and will not get impacted by</b></p> <p>24 <b>the bankruptcy proceeding. So some will; some</b></p> <p>25 <b>will not.</b></p>	<p style="text-align: right;">Page 115</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. You should ask KPMG that.</b></p> <p>3 Q. Are they responsible for auditing the</p> <p>4 City's financial data?</p> <p>5 <b>A. They are.</b></p> <p>6 Q. You don't dispute that the City could</p> <p>7 continue to cut costs if the bankruptcy petition</p> <p>8 were dismissed; correct?</p> <p>9 <b>A. Could you ask me that again, please.</b></p> <p>10 Q. There are cost-cutting measures the City</p> <p>11 could take if the bankruptcy petition were</p> <p>12 dismissed; correct?</p> <p>13 <b>A. Like what?</b></p> <p>14 Q. Well, it could reduce headcount. That's</p> <p>15 one; correct?</p> <p>16 <b>A. Unlikely. The City is already at a low</b></p> <p>17 <b>point in terms of the amount of headcount it</b></p> <p>18 <b>already has.</b></p> <p>19 Q. Well, here's some things that could</p> <p>20 happen. You could privatize some of the City</p> <p>21 services if the bankruptcy petition were</p> <p>22 dismissed; correct?</p> <p>23 <b>A. I don't know about that. Again, I mean,</b></p> <p>24 <b>I don't know if the City can cut more costs now.</b></p> <p>25 Q. You haven't been asked to do any</p>
<p style="text-align: right;">Page 114</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. But, overall, you would have to make</p> <p>3 changes to the baseline scenario to create a</p> <p>4 scenario where you had the bankruptcy petition</p> <p>5 dismissed; is that fair?</p> <p>6 <b>A. I don't know. I would have to look at</b></p> <p>7 <b>this. It would be easier to have the baseline in</b></p> <p>8 <b>front of me. I would have to look at it to say</b></p> <p>9 <b>whether we would have to change the entire</b></p> <p>10 <b>baseline or not.</b></p> <p>11 Q. There have been times where you received</p> <p>12 reports of cash collections from the City that</p> <p>13 were not properly categorized; correct?</p> <p>14 <b>A. Yes.</b></p> <p>15 Q. And there have been times where you</p> <p>16 received questionable reports regarding accounts</p> <p>17 payable from the City; correct?</p> <p>18 <b>A. When you say "questionable," it's -- I'm</b></p> <p>19 <b>just -- they were not -- they were not fully</b></p> <p>20 <b>complete.</b></p> <p>21 Q. And Ernst &amp; Young still -- you haven't</p> <p>22 audited the City's financial data; correct?</p> <p>23 <b>A. That is correct.</b></p> <p>24 Q. Would it be possible to audit the City's</p> <p>25 financial data?</p>	<p style="text-align: right;">Page 116</p> <p>1 <b>MALHOTRA</b></p> <p>2 analysis of the costs and revenues to the City if</p> <p>3 the bankruptcy petition is dismissed; correct?</p> <p>4 <b>A. We do not -- we do not have a scenario</b></p> <p>5 <b>of what happens if the City's bankruptcy</b></p> <p>6 <b>proceedings are dismissed; that is correct.</b></p> <p>7 Q. Have you been party to any conversations</p> <p>8 with the City where there have been discussions</p> <p>9 about what might happen if the bankruptcy petition</p> <p>10 is dismissed?</p> <p>11 <b>A. Not directly, no.</b></p> <p>12 Q. Do you know if there's any contingency</p> <p>13 planning by the City about what might happen if</p> <p>14 the bankruptcy petition is dismissed?</p> <p>15 <b>A. No.</b></p> <p>16 Q. Has the City already begun restructuring</p> <p>17 efforts that fall within that restructuring and</p> <p>18 reinvestment plan that your forecast is based on?</p> <p>19 <b>A. Some of the initiatives that are a part</b></p> <p>20 <b>of the restructuring and reinvestment budget have</b></p> <p>21 <b>been started already.</b></p> <p>22 Q. What would those include?</p> <p>23 <b>A. You would have to talk to Conway</b></p> <p>24 <b>MacKenzie about that, because there's a detailed</b></p> <p>25 <b>risk of the items that are already -- or John</b></p>

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<p style="text-align: right;">Page 117</p> <p>1 MALHOTRA</p> <p>2 Hill, actually, of the items that are already</p> <p>3 underway.</p> <p>4 Q. And would the costs and revenues from</p> <p>5 those activities be incorporated in both your</p> <p>6 baseline and your restructuring scenario or not?</p> <p>7 A. No. It's a part of the restructuring</p> <p>8 scenario. We are operating as one scenario now</p> <p>9 that includes the restructuring and reinvestment</p> <p>10 initiatives; so, yes, those costs and -- would be</p> <p>11 a part of the restructuring and reinvestment</p> <p>12 budget as laid out in the plan.</p> <p>13 Q. Okay. But I'm wondering, did you update</p> <p>14 the baseline scenario or not really?</p> <p>15 A. I would have to go back and check, if</p> <p>16 any of the items would be reflective -- what</p> <p>17 change in the baseline. We are much more focused</p> <p>18 on the overall restructuring scenario.</p> <p>19 Q. Okay. So sitting here today, you don't</p> <p>20 know whether or not you've incorporated costs from</p> <p>21 restructuring activities that have already started</p> <p>22 in the baseline scenario?</p> <p>23 A. I would have to go back and look at</p> <p>24 that.</p> <p>25 Q. Okay. Is that apparent on the face of</p>	<p style="text-align: right;">Page 119</p> <p>1 MALHOTRA</p> <p>2 A. The baseline assumes that those billion</p> <p>3 four of expenses are not in the baseline. So</p> <p>4 that's what I'm comfortable telling you, that</p> <p>5 those billion four of expenses are not in the</p> <p>6 baseline.</p> <p>7 Q. You've been working with the City since</p> <p>8 May of 2011; is that correct?</p> <p>9 A. That sounds about right.</p> <p>10 Q. And you know that there was a financial</p> <p>11 stability agreement between the State and the</p> <p>12 City; correct?</p> <p>13 A. That is correct.</p> <p>14 Q. And that was a consent agreement between</p> <p>15 the State and the City; correct?</p> <p>16 A. And the city Council. Yes.</p> <p>17 Q. And the financial stability agreement</p> <p>18 imposed mutual obligations on the City and the</p> <p>19 State to try to help restructure the City's</p> <p>20 financial situation; correct?</p> <p>21 A. There were some annex additions that</p> <p>22 were a part of the agreement in which both the</p> <p>23 State and the City had certain obligations, yes.</p> <p>24 Q. And did the financial stability</p> <p>25 agreement establish the financial advisory board</p>
<p style="text-align: right;">Page 118</p> <p>1 MALHOTRA</p> <p>2 the 10-year and 40-year forecasts? Or do you have</p> <p>3 to go back to the Excel spreadsheets or some other</p> <p>4 source to figure that out? Or is it something</p> <p>5 that Conway MacKenzie would have to tell you?</p> <p>6 A. I'm just thinking. I think the -- it</p> <p>7 would be in the overall restructuring and</p> <p>8 reinvestment scenario, because the timing of some</p> <p>9 of the expenses had changed. So my guess is that</p> <p>10 it would be reflective in the update, to the best</p> <p>11 of our ability.</p> <p>12 Q. And -- but would it be in the update of</p> <p>13 the baseline scenario?</p> <p>14 A. I don't think it would be in the</p> <p>15 baseline cells, but we are -- like I said, we are</p> <p>16 looking at this as one restructuring scenario. It</p> <p>17 continues to be the focus.</p> <p>18 Q. But your assumption in your forecast is</p> <p>19 that there would be no restructuring or</p> <p>20 reinvestment outside of chapter -- if the plan</p> <p>21 were not confirmed; is that fair?</p> <p>22 A. Can you please repeat that.</p> <p>23 Q. Is one of the assumptions of your</p> <p>24 forecast that there would be no restructuring or</p> <p>25 reinvestment if the plan were not confirmed?</p>	<p style="text-align: right;">Page 120</p> <p>1 MALHOTRA</p> <p>2 and revenue conferences that are still ongoing?</p> <p>3 A. I think it was a part of the financial</p> <p>4 stability agreement, yes.</p> <p>5 Q. And the City agreed to operational</p> <p>6 reforms in the financial stability agreement?</p> <p>7 A. Yes. There were some operations</p> <p>8 changes. I don't recall which ones, but --</p> <p>9 Q. And then the emergency manager was</p> <p>10 appointed by the State; correct?</p> <p>11 A. Yes.</p> <p>12 Q. And the emergency manager put together</p> <p>13 an operating plan. Do you recall that?</p> <p>14 A. I do.</p> <p>15 Q. That was around May of 2013; correct?</p> <p>16 A. I don't remember the exact date.</p> <p>17 Q. And you agreed that the emergency</p> <p>18 manager had indicated that the financial stability</p> <p>19 agreement was the starting point for the emergency</p> <p>20 manager's plan?</p> <p>21 A. I do not recall that.</p> <p>22 Q. Do you agree that the emergency</p> <p>23 manager's operational plan, that was produced</p> <p>24 before the City went into bankruptcy; correct?</p> <p>25 A. That is correct.</p>

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<p style="text-align: right;">Page 121</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. And that operational plan, again,</p> <p>3 discussed reforming and restructuring the City's</p> <p>4 operations to improve the City's fiscal condition;</p> <p>5 correct?</p> <p>6 <b>A. I would have to go back and look at that</b></p> <p>7 <b>report.</b></p> <p>8 Q. Has the City -- have the City and State</p> <p>9 recognized that the main issue facing the City's</p> <p>10 government and its fiscal situation are the legacy</p> <p>11 costs from the pensions and healthcare coverage?</p> <p>12 <b>A. That's -- can you repeat that question,</b></p> <p>13 <b>please.</b></p> <p>14 Q. Based on your work with the City and</p> <p>15 State, do they recognize that the main fiscal</p> <p>16 challenge to the City and State are the legacy</p> <p>17 costs --</p> <p>18 <b>A. I'm sorry.</b></p> <p>19 Q. -- from the pensions?</p> <p>20 <b>A. Who is they?</b></p> <p>21 Q. The City and State officials that you've</p> <p>22 worked with, did they recognize that the main</p> <p>23 challenge to the City and its fiscal situation are</p> <p>24 these legacy costs from the pension and</p> <p>25 healthcare?</p>	<p style="text-align: right;">Page 123</p> <p>1 <b>MALHOTRA</b></p> <p>2 make easier for me to answer it.</p> <p>3 BY MR. SMITH:</p> <p>4 Q. Okay. Before the City filed its</p> <p>5 bankruptcy petition, it was already engaged in</p> <p>6 restructuring efforts to improve its fiscal</p> <p>7 condition; correct?</p> <p>8 <b>A. That is correct.</b></p> <p>9 Q. And in your view, were the efforts the</p> <p>10 City took before the bankruptcy petition was filed</p> <p>11 to restructure its operations and improve its</p> <p>12 fiscal condition, were those good efforts and</p> <p>13 reasonable efforts by the City?</p> <p>14 MR. STEWART: Objection.</p> <p>15 THE WITNESS: There were several efforts</p> <p>16 the City took in order to cut costs, some</p> <p>17 temporarily. Some were just deferrals. And</p> <p>18 so, you know, there were several initiatives</p> <p>19 the City was working on. I would say the</p> <p>20 City did undertake several initiatives to cut</p> <p>21 costs, cut the cash disbursements by either</p> <p>22 deferring outflows or, in some cases,</p> <p>23 imposing some wage cuts on employees.</p> <p>24 BY MR. SMITH:</p> <p>25 Q. So one strategy the City used to improve</p>
<p style="text-align: right;">Page 122</p> <p>1 <b>MALHOTRA</b></p> <p>2 MR. ALBERTS: Objection to form.</p> <p>3 THE WITNESS: I don't think that's the</p> <p>4 only issue. I mean, it's declining</p> <p>5 population, which is a significant issue that</p> <p>6 has faced Detroit. So I don't know. You</p> <p>7 would have to ask the State and City</p> <p>8 officials that question.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Based on your work with the City before</p> <p>11 the bankruptcy petition was filed, is it your view</p> <p>12 that the City's efforts to restructure and improve</p> <p>13 its fiscal operations before the bankruptcy</p> <p>14 petition was filed were reasonable and good</p> <p>15 efforts?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: Could you just repeat the</p> <p>18 question, please.</p> <p>19 (Thereupon, the requested portion</p> <p>20 was read back by the reporter as</p> <p>21 above recorded.)</p> <p>22 THE WITNESS: So I still don't</p> <p>23 understand the last part of that question.</p> <p>24 The City -- I mean, if you can just rephrase</p> <p>25 the last part of your question, it will just</p>	<p style="text-align: right;">Page 124</p> <p>1 <b>MALHOTRA</b></p> <p>2 its fiscal situation before bankruptcy was to</p> <p>3 defer expenditures; correct?</p> <p>4 <b>A. The City was deferring contributions to</b></p> <p>5 <b>the pension systems in order to just cash flow day</b></p> <p>6 <b>to day.</b></p> <p>7 Q. And was that lawful?</p> <p>8 MR. ALBERTS: Objection.</p> <p>9 THE WITNESS: I don't know about that.</p> <p>10 BY MR. SMITH:</p> <p>11 Q. In your forecast, there's no deferral of</p> <p>12 contributions to the pension system, is there?</p> <p>13 <b>A. In which forecast?</b></p> <p>14 Q. In any of your forecasts.</p> <p>15 <b>A. In the plan of adjustment, I do not</b></p> <p>16 <b>believe we are contemplating deferring pension</b></p> <p>17 <b>contributions.</b></p> <p>18 Q. And deferral of pension contributions is</p> <p>19 a strategy that a number of cities have used to</p> <p>20 improve their fiscal situation; correct?</p> <p>21 <b>A. I can't -- I don't know about that.</b></p> <p>22 Q. You haven't done any investigation to</p> <p>23 determine what measures other cities have taken to</p> <p>24 improve their fiscal situation have been, have</p> <p>25 you?</p>

Pages 121 to 124



<p style="text-align: right;">Page 125</p> <p>1 MALHOTRA</p> <p>2 <b>A. What do you mean? In what particular</b></p> <p>3 <b>context?</b></p> <p>4 Q. Well, have you done any investigation of</p> <p>5 other cities to find out what efforts they've made</p> <p>6 to increase revenues or decrease costs to address</p> <p>7 fiscal distress?</p> <p>8 <b>A. I've kept up with what other cities are</b></p> <p>9 <b>sometimes doing to improve revenue initiatives.</b></p> <p>10 Q. One successful strategy cities have used</p> <p>11 to improve revenues is to raise tax rates;</p> <p>12 correct?</p> <p>13 <b>A. I do not know about that. I'm sure if</b></p> <p>14 <b>you increased tax rates -- I don't know what the</b></p> <p>15 <b>impact is on collections. So I don't know if that</b></p> <p>16 <b>is successful or not successful.</b></p> <p>17 Q. Okay. Do you agree that one strategy</p> <p>18 that cities have used to increase revenues is to</p> <p>19 raise tax rates?</p> <p>20 <b>A. If tax rates are increased and the</b></p> <p>21 <b>collection levels do not drop and the wage levels</b></p> <p>22 <b>remain the same, one could imply that collections</b></p> <p>23 <b>were going up. But I do not know -- I can tell</b></p> <p>24 <b>that in Detroit, the City increased the corporate</b></p> <p>25 <b>income tax rate from 1 percent to 2 percent. And</b></p>	<p style="text-align: right;">Page 127</p> <p>1 MALHOTRA</p> <p>2 cities that have cut services in order to address</p> <p>3 fiscal distress?</p> <p>4 <b>A. Yes. In fact, Detroit's been doing it</b></p> <p>5 <b>probably for a long time.</b></p> <p>6 Q. And there are cities that have engaged</p> <p>7 in privatization in order to improve their fiscal</p> <p>8 situation; correct?</p> <p>9 <b>A. Cities have privatized assets all over</b></p> <p>10 <b>the country. Whether it improves their fiscal</b></p> <p>11 <b>position or not, I can't comment on that.</b></p> <p>12 Q. Are you from Chicago?</p> <p>13 <b>A. I live in Chicago, yes.</b></p> <p>14 Q. Okay. Well, we have something in</p> <p>15 common. You know the City in Chicago privatized</p> <p>16 its parking system; right?</p> <p>17 <b>A. A lease -- and turned to a long-term</b></p> <p>18 <b>lease agreement.</b></p> <p>19 Q. And received more than a billion dollars</p> <p>20 for doing that; correct?</p> <p>21 <b>A. Yeah, I don't remember what the exact</b></p> <p>22 <b>revenue was, but that may sound reasonable.</b></p> <p>23 Q. And the City of Chicago has also cut,</p> <p>24 you know, its costs in other ways in order to</p> <p>25 address fiscal distress; correct?</p>
<p style="text-align: right;">Page 126</p> <p>1 MALHOTRA</p> <p>2 <b>so that did result in higher collections.</b></p> <p>3 Q. Another strategy that cities have</p> <p>4 implemented to improve their fiscal situation is</p> <p>5 to increase fees for services; correct?</p> <p>6 <b>A. Yes. And it depends on the level of</b></p> <p>7 <b>service and the collectability of those increased</b></p> <p>8 <b>fees.</b></p> <p>9 Q. And another strategy cities have used to</p> <p>10 improve their fiscal situation is improve</p> <p>11 collection of taxes; correct?</p> <p>12 <b>A. If the collection rates improve and</b></p> <p>13 <b>everything else remains the same, that would</b></p> <p>14 <b>improve the taxes.</b></p> <p>15 Q. A number of cities, in order to deal</p> <p>16 with fiscal distress, have cut services; correct?</p> <p>17 <b>A. Like what?</b></p> <p>18 Q. Like a lot of different kinds of</p> <p>19 services, city services. There have been cities</p> <p>20 that have cut police and fire service in order to</p> <p>21 address fiscal distress; correct?</p> <p>22 <b>A. I can't talk about one that specifically</b></p> <p>23 <b>comes to mind where police and fire has been cut</b></p> <p>24 <b>significantly.</b></p> <p>25 Q. Are you aware that there have been</p>	<p style="text-align: right;">Page 128</p> <p>1 MALHOTRA</p> <p>2 <b>A. Like what?</b></p> <p>3 Q. Well, I think it's cut some wages and</p> <p>4 probably cut headcount.</p> <p>5 <b>A. I don't know about that.</b></p> <p>6 Q. You know that the City of Chicago is</p> <p>7 contemplating a significant increase in property</p> <p>8 taxes?</p> <p>9 <b>A. I don't know what "significant" is.</b></p> <p>10 Q. Well, you know the City of Chicago is</p> <p>11 planning to increase property taxes, correct, in</p> <p>12 order to address its fiscal situation?</p> <p>13 <b>A. I don't know how much of that is driven</b></p> <p>14 <b>by the State versus the City. I haven't paid too</b></p> <p>15 <b>much attention to those taxes going up.</b></p> <p>16 Q. Okay. Well, you must not live in the</p> <p>17 city.</p> <p>18 <b>A. I do live in the city.</b></p> <p>19 Q. So do I. I've been paying attention.</p> <p>20 You're aware, though, that there are</p> <p>21 plans to increase property taxes, whether they're</p> <p>22 driven by the State or they're driven by the City,</p> <p>23 in Chicago in order to address the fiscal</p> <p>24 situation; correct?</p> <p>25 <b>A. Yeah, I read about that.</b></p>

Pages 125 to 128

<p style="text-align: right;">Page 129</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. And you're aware that Chicago city</p> <p>3 pensions are significantly underfunded; correct?</p> <p>4 <b>A. Underfunded compared to what?</b></p> <p>5 Q. Well, compared to Detroit, Chicago's</p> <p>6 pensions are much less funded than Detroit's</p> <p>7 pensions are; correct?</p> <p>8 <b>A. I don't know the assumptions that City</b></p> <p>9 <b>of Chicago is using, and so I don't know exactly</b></p> <p>10 <b>what that funded status is.</b></p> <p>11 Q. Would you agree that there are a number</p> <p>12 of cities in the country that are having to deal</p> <p>13 with fiscal distress and fiscal crisis?</p> <p>14 <b>A. I know of two other cities --</b></p> <p>15 <b>Stockton -- that are in Chapter 9. So, I mean, I</b></p> <p>16 <b>don't know what you mean by a number of cities all</b></p> <p>17 <b>over the country facing fiscal distress.</b></p> <p>18 Q. Have you done any investigation into the</p> <p>19 fiscal condition of any other cities?</p> <p>20 <b>A. Yes.</b></p> <p>21 Q. And you're aware that there are other</p> <p>22 cities in the country experiencing fiscal distress</p> <p>23 and crisis; correct?</p> <p>24 <b>A. There are some other cities in the</b></p> <p>25 <b>country facing financial distress, yes.</b></p>	<p style="text-align: right;">Page 131</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. Not on a day-to-day basis. That's</b></p> <p>3 <b>something that, you know, the emergency manager is</b></p> <p>4 <b>doing.</b></p> <p>5 <b>But if there are specific questions on</b></p> <p>6 <b>assumptions or on the forecast, yeah, I speak to</b></p> <p>7 <b>the State on that.</b></p> <p>8 Q. Okay. So the City -- the emergency</p> <p>9 manager keeps the State apprised on a day-to-day</p> <p>10 basis of the City's financial condition and</p> <p>11 efforts at fiscal improvement; correct?</p> <p>12 MR. STEWART: Objection.</p> <p>13 THE WITNESS: You would have to ask the</p> <p>14 emergency manager that.</p> <p>15 MS. FOX: Object to form.</p> <p>16 THE WITNESS: You would have to ask the</p> <p>17 emergency manager that.</p> <p>18 BY MR. SMITH:</p> <p>19 Q. Are you aware of any funding the State's</p> <p>20 provided to the City to support its restructuring</p> <p>21 or -- and investment plan?</p> <p>22 <b>A. There's \$194.8 million coming in from</b></p> <p>23 <b>the State in terms of pension that's coming in.</b></p> <p>24 Q. But does the State -- oh, okay. So the</p> <p>25 State has agreed to contribute to the pension</p>
<p style="text-align: right;">Page 130</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Did -- before its Chapter 9 filing, had</p> <p>3 the City put together a restructuring plan? Say</p> <p>4 around March of 2013?</p> <p>5 <b>A. I do not recall if it was a</b></p> <p>6 <b>restructuring plan or the City -- I'm sure had</b></p> <p>7 <b>pulled together some short-term like -- five-year</b></p> <p>8 <b>forecast at that point in time to, say, lay out</b></p> <p>9 <b>what the expense side could be or at least get a</b></p> <p>10 <b>better handle on it.</b></p> <p>11 Q. The City did make a proposal to</p> <p>12 creditors that would have accomplished a</p> <p>13 restructuring outside of Chapter 9; correct?</p> <p>14 <b>A. That was the June proposal in terms of</b></p> <p>15 <b>laying out what the financial resources available</b></p> <p>16 <b>to the City were to meet its legacy liability of</b></p> <p>17 <b>legacy obligations.</b></p> <p>18 Q. Are you involved in communications</p> <p>19 directly with the State of Michigan in your work</p> <p>20 on -- for the City of Detroit?</p> <p>21 <b>A. Off and on, and not on a day-to-day</b></p> <p>22 <b>basis.</b></p> <p>23 Q. Do you keep the State of Michigan</p> <p>24 informed about the City's activities with respect</p> <p>25 to its financial situation?</p>	<p style="text-align: right;">Page 132</p> <p>1 <b>MALHOTRA</b></p> <p>2 funds for City workers; is that fair?</p> <p>3 MR. ALBERTS: Objection to form.</p> <p>4 THE WITNESS: It's a part of the grand</p> <p>5 bargain.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Other than contributing to the pension</p> <p>8 fund, has the State provided any funding to</p> <p>9 support the City's restructuring and reinvestment</p> <p>10 plan?</p> <p>11 <b>A. I think the State had also assisted with</b></p> <p>12 <b>some portion of the professional fees.</b></p> <p>13 Q. And other than paying professional fees</p> <p>14 and the pension and contributing money to</p> <p>15 pensions, has the State provided any funding in</p> <p>16 support of the City's restructuring and</p> <p>17 reinvestment plan?</p> <p>18 <b>A. Well, just to be clear on the first one,</b></p> <p>19 <b>as you just asked the question, as a part of the</b></p> <p>20 <b>contribution to the grand bargain, that money does</b></p> <p>21 <b>not have to be put into the pensions by the City.</b></p> <p>22 <b>So the City is having funding available for the</b></p> <p>23 <b>restructuring and reinvestment plan. I just want</b></p> <p>24 <b>to make that clear.</b></p> <p>25 <b>Other specific projects, I would defer</b></p>

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1                   **MALHOTRA**  
2   **to Conway MacKenzie in terms of that billion four,**  
3   **if -- what assistance is being provided, if any,**  
4   **by the State, because I know the State does**  
5   **continue to provide specific grants that work**  
6   **through the different departments.**  
7       Q. You're not aware of any special funding  
8   that State has designated for reinvestment and  
9   restructuring Detroit?  
10       **A. I believe the hardest hit funds of the**  
11   **\$50 million -- \$52-1/2 million I think are coming**  
12   **through the State. I'm not sure.**  
13       Q. Is it your understanding that the  
14   194 million that the City is receiving from the  
15   State doesn't have to go into the pension fund but  
16   could be used to pay other creditors?  
17       MR. STEWART: Objection.  
18       THE WITNESS: No, that's not my  
19   understanding.  
20   BY MR. SMITH:  
21       Q. Okay. It has to go into the pension  
22   fund?  
23       **A. Yes, that is my understanding.**  
24       Q. Okay. And is that the way your forecast  
25   treats that money? Is it accounted for in your

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1                   **MALHOTRA**  
2   forecast?  
3       **A. Yes.**  
4       Q. Would it be fair to say that the  
5   emergency manager made significant progress in  
6   cutting costs and increasing revenues before the  
7   bankruptcy petition was filed?  
8       **A. What did you mean "significant"?**  
9       Q. Well, use your definition of  
10   "significant."  
11       Would you say that the emergency manager  
12   had made significant progress in cutting costs and  
13   increasing revenues before the bankruptcy petition  
14   was filed?  
15       **A. I don't know what your definition of**  
16   **"significant" is. I will say that the emergency**  
17   **manager -- I don't know about the revenue**  
18   **initiatives, but -- in my view, I think there was**  
19   **some ongoing cost cutting even continuing then.**  
20       Q. Okay. So using your definition of  
21   "significant," did the emergency manager make  
22   significant progress in cost cutting before the  
23   bankruptcy petition was filed?  
24       MR. STEWART: Objection.  
25       THE WITNESS: I would have to go back

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1                   **MALHOTRA**  
2       and look at the projections or the actual  
3       costs before and after to be able to answer  
4       that.  
5   BY MR. SMITH:  
6       Q. Okay. Did the City initiate plans to  
7   improve tax collection before filing the  
8   bankruptcy petition?  
9       **A. The City has been working on trying to**  
10   **improve tax collections the entire time. I mean,**  
11   **it's an ongoing process to improve the process,**  
12   **you know, collection efforts in any fashion**  
13   **possible.**  
14       Q. There is significant revenues that are  
15   owed in taxes that the City has not collected each  
16   year; correct?  
17       **A. I do not know about that.**  
18       Q. Well, how much in revenue -- do you know  
19   how much in revenue the City is not collecting  
20   each year in taxes?  
21       **A. I do not.**  
22       Q. So you haven't done any analysis that --  
23   in your forecast to try to quantify amount of  
24   revenue that could be obtained through increased  
25   tax collection?

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1                   **MALHOTRA**  
2       **A. EY has not done an analysis on**  
3   **delinquent taxes today and what efforts could be**  
4   **made to collect those delinquent taxes. I know**  
5   **the City has been working on, you know, providing**  
6   **relief so that people come out and -- or amnesty**  
7   **programs, and we know that the City has made good**  
8   **efforts on those.**  
9       **I do not -- we have not gone out -- EY**  
10   **has not gone out to try and come up with a**  
11   **collection effort for any delinquent taxes.**  
12       Q. But over the 10-year period of your  
13   forecast, you haven't quantified the amount of  
14   taxes that will go uncollected if current trends  
15   continue; correct?  
16       **A. We have a collection-rate assumption in**  
17   **the forecast that continues to improve over the**  
18   **forecast period. So I would have to go back and**  
19   **see if we can quantify what -- your question. But**  
20   **I know that we are assuming that the collection**  
21   **rates would actually increase over the forecast**  
22   **period.**  
23       Q. Is that true for all taxes?  
24       **A. Well, at least in the big one where --**  
25   **in property taxes, I believe that is the case. We**

Pages 133 to 136

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1 **MALHOTRA**

2 **can go down the line. On casino taxes, there is**

3 **no issue because the collection rates are fine.**

4 **On the income taxes, I would have to go back and**

5 **check.**

6 Q. As far as you're aware, on the income

7 tax you haven't incorporated an estimate in your

8 forecast for an increase in revenue that would

9 occur if there were withholding for reverse

10 commuters or if there was piggybacking with state

11 taxes; correct?

12 **A. That is correct. We have not got a --**

13 **we do not have in the baseline an initiative**

14 **specifically on the reverse-commuter tax issue.**

15 Q. And it's not in the restructuring

16 scenario either; correct?

17 **A. I do not think it is, but I would -- you**

18 **should confirm that with Conway MacKenzie.**

19 Q. Okay. Or would it be Mr. Cline that did

20 that, or --

21 **A. On the specific reverse commuter, if**

22 **it's -- if that revenue has been -- if that**

23 **revenue has been included in the restructuring and**

24 **reinvestment operating initiatives, you would have**

25 **to talk to Conway MacKenzie about that.**

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1 **MALHOTRA**

2 Q. Okay. So sitting here today, though, as

3 far as you're aware, it's -- there's not been a

4 specific addition for implementing income tax

5 withholding or piggybacking with the state tax;

6 correct?

7 **A. That is correct. Not that I know of.**

8 Q. And there have been no -- you haven't

9 attempted to forecast what would happen if tax

10 rates increased; correct?

11 **A. Which tax rates?**

12 Q. Any of the tax rates. You haven't built

13 in an increase for any tax rates in your

14 forecasting model; correct?

15 **A. That is a policy question. Yes, we have**

16 **not baked any increases in the tax rate, because I**

17 **think they're already at the max in certain cases.**

18 **But we have left tax rates where they are today.**

19 Q. But the State and the City, in the

20 cooperation, could raise any of the tax rates;

21 correct?

22 **A. I don't know what legislation is**

23 **required for that. You would have to ask the**

24 **State or the City. It's a policy question.**

25 Q. Are there any policy -- potential policy

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1 **MALHOTRA**

2 changes that you have factored into your forecast?

3 **A. I would have to go back and check.**

4 **Not -- nothing that comes to mind specifically.**

5 **If you were to ask me a more detailed question,**

6 **I'd be able to answer.**

7 Q. Over the 10-year period, one thing that

8 can obviously impact your forecast is if there are

9 changes in policy, such as change in tax rates or

10 other policy changes that affect revenues or

11 costs; correct?

12 **A. If you change the assumption, the**

13 **numbers will change. You are correct.**

14 Q. Where did you get the assumption to hold

15 tax rates constant?

16 **A. That was the -- discussion with the**

17 **emergency manager.**

18 Q. Where did you get the assumption to --

19 as far as you're aware, not incorporate, you know,

20 withholding for the income tax or piggybacking

21 with the state tax?

22 **A. I do not recall. My -- I do not recall**

23 **specifically because there was not enough**

24 **substantive information that was available to**

25 **judge what, if any, that impact was. But I was**

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1 **MALHOTRA**

2 **not a part of those discussions.**

3 Q. Do you agree the City is able to pay its

4 bills right now?

5 **A. What bills?**

6 Q. All of its bills. I mean --

7 **A. Well, under the restructuring scenario,**

8 **it's different. So you have to be more specific**

9 **about what bills. While the City is in bankruptcy**

10 **or . . .**

11 Q. You included in your forecast, I think

12 it is called, a contingency fund or something like

13 that. Do you recall that?

14 **A. A contingency reserve.**

15 Q. Or reserve. And how much is that?

16 **A. We used about -- we used 1 percent of**

17 **revenues.**

18 Q. And how much money does that work out

19 to?

20 **A. On almost \$11 billion of revenues -- on**

21 **more than \$11 billion of revenues, it's about**

22 **\$100 million of contingency.**

23 Q. And before the City went into

24 bankruptcy, did it have a contingency reserve?

25 **A. It wasn't discretely called out. I do**

Pages 137 to 140

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1 **MALHOTRA**  
2 **not know, in the budget, if there was a specific**  
3 **contingency reserve or not. I would have to go**  
4 **back and check.**  
5 Q. Sitting here today, though, you're not  
6 aware of any contingency reserve the City had  
7 before entering bankruptcy; correct?  
8 **A. I don't know if it was entered into**  
9 **specific line items or if it was not. So -- but I**  
10 **do not recall of a specific contingency reserve**  
11 **that was at least in the budget. The City always**  
12 **tries to budget for deficit elimination to**  
13 **basically account for the previous year's deficit,**  
14 **but I don't know if it's a line called**  
15 **"contingency reserve."**  
16 Q. Was there a contingency reserve in the  
17 version of the forecast you did for the fourth  
18 plan?  
19 **A. I'm sorry?**  
20 Q. Fourth plan. Fourth amended plan.  
21 **A. I would have to go back and look at the**  
22 **fourth amended plan.**  
23 Q. Okay. Have there been prior --  
24 **A. Oh, yes. I'm sorry. That was the plan**  
25 **of the adjustment filed. Yes, there was a**

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1 **MALHOTRA**  
2 **contingency.**  
3 Q. And was it in the same amount or not?  
4 **A. I think it was -- the amount of the**  
5 **contingency was pretty much the same because it**  
6 **was driven off 1 percent of revenue.**  
7 **So if the revenues changed slightly, the**  
8 **contingency would have changed slightly. But the**  
9 **methodology was the same: It was 1 percent of**  
10 **revenues.**  
11 Q. Were there versions of the plan where  
12 you had no contingency reserve?  
13 **A. I would have to go back and look.**  
14 Q. You don't know whether the contingency  
15 reserve was in all versions of your plan, sitting  
16 here?  
17 **A. I don't know if it was -- the 1 percent**  
18 **was in all versions or not.**  
19 Q. You agree that if the petition is  
20 dismissed, some blight-reduction efforts would  
21 continue; correct?  
22 **A. It depends on the amount of money the**  
23 **City has available to fund. Something that is**  
24 **grant-funded, like the \$50 million, if it is still**  
25 **available, presumably it would be spent.**

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1 **MALHOTRA**  
2 Q. Do you agree that if the petition is  
3 dismissed, efforts to increase tax collections  
4 will continue?  
5 **A. I do not know, because it would -- the**  
6 **City would require funding for all these**  
7 **initiatives.**  
8 Q. So you don't know one way or the other?  
9 **A. I do not.**  
10 Q. If the petition is dismissed, would it  
11 be fair to say that the City will continue to try  
12 to increase revenues?  
13 **A. Yes.**  
14 Q. If the petition is dismissed, will the  
15 City continue to try to cut costs?  
16 **A. I do not know about that.**  
17 Q. If the petition is dismissed, will the  
18 City continue to use privatization efforts to  
19 improve its fiscal situation?  
20 **A. I do not know about that.**  
21 Q. If the -- would it be fair to say that  
22 you just don't know what -- what will happen if  
23 the petition is dismissed, because you haven't  
24 investigated what specific activities will  
25 continue or not?

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1 **MALHOTRA**  
2 **A. Yeah. If the petition is dismissed and**  
3 **the City has to continue to pay its legacy bills**  
4 **as they were prior to the bankruptcy, that's going**  
5 **to be a problem for the City; based on which, I do**  
6 **not know what the City will have the ability or**  
7 **will not have the ability to do. I have not fully**  
8 **looked at that.**  
9 Q. You haven't been asked to look at what  
10 would happen if the petition is dismissed by the  
11 City or the State; correct?  
12 **A. That is correct.**  
13 Q. And you're not offering any opinion  
14 about -- have you reviewed Syncora's objection to  
15 the bankruptcy petition?  
16 **A. No.**  
17 Q. So you're not offering any opinion about  
18 the analysis in Syncora's objections which shows  
19 how much money it believes creditors could receive  
20 if the petition were dismissed; correct?  
21 **A. That's correct.**  
22 Q. The -- and nobody's asked -- nobody has  
23 asked you to do such an analysis, from the City or  
24 State; correct?  
25 **A. That is correct.**

Pages 141 to 144

<p style="text-align: right;">Page 145</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. Can you identify any city in fiscal</p> <p>3 crisis that's planning to spend approximately a</p> <p>4 billion dollars in new reinvestment spending?</p> <p>5 <b>A. I do not know of another city which is</b></p> <p>6 <b>probably in the same condition as Detroit, but</b></p> <p>7 <b>that would be -- I do not know.</b></p> <p>8 Q. Can you identify any city that's</p> <p>9 planning to spend approximately a billion dollars</p> <p>10 in new reinvestment while not raising tax rates?</p> <p>11 <b>A. I do not know.</b></p> <p>12 Q. Can't identify such a city?</p> <p>13 <b>A. I haven't done the analysis to go out</b></p> <p>14 <b>and take a look.</b></p> <p>15 Q. So you can't identify any examples?</p> <p>16 <b>A. I just said I do not know.</b></p> <p>17 Q. Can you identify any cities that are</p> <p>18 planning to spend hundreds of millions of dollars</p> <p>19 on blight reduction?</p> <p>20 <b>A. I do not know.</b></p> <p>21 Q. Can't identify any such a city; correct?</p> <p>22 <b>A. I haven't gone out and done this</b></p> <p>23 <b>particular analysis, so I do not know.</b></p> <p>24 Q. You agree that not every city has a</p> <p>25 municipal income tax; correct?</p>	<p style="text-align: right;">Page 147</p> <p>1 <b>MALHOTRA</b></p> <p>2 exist; correct?</p> <p>3 <b>A. Or may replace existing taxes in some</b></p> <p>4 <b>fashion.</b></p> <p>5 Q. And where did that assumption come from?</p> <p>6 <b>A. We've left the tax policy the same as it</b></p> <p>7 <b>is today.</b></p> <p>8 Q. And did that come from the emergency</p> <p>9 manager?</p> <p>10 <b>A. That's what I thought I said earlier.</b></p> <p>11 MR. SMITH: Okay. Why don't we take a</p> <p>12 break.</p> <p>13 THE WITNESS: Okay.</p> <p>14 THE VIDEOGRAPHER: Going off the record</p> <p>15 at 12:12 p.m. This is the end of Tape No. 2.</p> <p>16 (Short break taken.)</p> <p>17 THE VIDEOGRAPHER: We are back on the</p> <p>18 record at 12:21. This is the beginning of</p> <p>19 Tape No. 3.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. Mr. Malhotra, you agree that it's</p> <p>22 possible to increase the money available to pay</p> <p>23 creditors by changing the assumptions in your</p> <p>24 forecast; correct?</p> <p>25 <b>A. If you change the assumptions, the</b></p>
<p style="text-align: right;">Page 146</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. That is correct.</b></p> <p>3 Q. And there are many cities that don't</p> <p>4 have wagering tax; correct?</p> <p>5 <b>A. That is correct.</b></p> <p>6 Q. And there are cities that don't have</p> <p>7 access to a corporate tax; is that correct?</p> <p>8 <b>A. I assume so. I do not know for sure.</b></p> <p>9 Q. Okay. Would it be fair to say that</p> <p>10 Detroit has revenue streams from tax sources that</p> <p>11 other cities lack, other comparable cities?</p> <p>12 <b>A. I would say Detroit has used taxes from</b></p> <p>13 <b>sources to fund its expenditures that other cities</b></p> <p>14 <b>have not had to maybe use to fund their</b></p> <p>15 <b>expenditures.</b></p> <p>16 Q. Okay. And your -- one assumption of</p> <p>17 your forecast is that there will be no new taxes</p> <p>18 that are created to provide new revenue. Is that</p> <p>19 fair?</p> <p>20 <b>A. It's a tax policy question. From a tax</b></p> <p>21 <b>policy standpoint, we've just left the existing</b></p> <p>22 <b>policy as is over the forecast period,</b></p> <p>23 <b>essentially.</b></p> <p>24 Q. Okay. So one of your assumptions is</p> <p>25 there won't be any new taxes that don't currently</p>	<p style="text-align: right;">Page 148</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>numbers will change.</b></p> <p>3 Q. So that's correct?</p> <p>4 <b>A. I just said if you change assumptions,</b></p> <p>5 <b>numbers change. Depends on what assumptions you</b></p> <p>6 <b>change.</b></p> <p>7 Q. It's possible to change the assumptions</p> <p>8 in a manner that will increase the money available</p> <p>9 to pay creditors; correct?</p> <p>10 <b>A. Like what assumptions are you referring</b></p> <p>11 <b>to?</b></p> <p>12 Q. Well, you could increase tax rates and</p> <p>13 potentially increase the money available to pay</p> <p>14 creditors; correct?</p> <p>15 <b>A. If you have more revenue in the forecast</b></p> <p>16 <b>than is currently projected, you will have more</b></p> <p>17 <b>money.</b></p> <p>18 Q. So it's possible to change the</p> <p>19 assumptions in your forecast to provide more money</p> <p>20 for creditors; correct?</p> <p>21 <b>A. If -- if you change -- you have to look</b></p> <p>22 <b>at it in aggregate. If you change a particular</b></p> <p>23 <b>discrete assumption and assume everything else</b></p> <p>24 <b>remains the same and if you assume in that</b></p> <p>25 <b>particular scenario there's more revenue and</b></p>

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<p style="text-align: right;">Page 149</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>everything else is the same, yes, there will be</b></p> <p>3   <b>more money.</b></p> <p>4       Q.   And you're not claiming that it's</p> <p>5   impossible for the City to pay creditors more</p> <p>6   money than is reflected in your forecast; correct?</p> <p>7       <b>A.   You say "impossible." It's -- I mean,</b></p> <p>8   <b>the City has -- if you change the assumptions on</b></p> <p>9   <b>any of these items, the money could go up or the</b></p> <p>10   <b>money could go down.</b></p> <p>11       Q.   And so it's certainly possible -- well,</p> <p>12   we covered that already. And we've also covered</p> <p>13   that you're not doing any comparison between the</p> <p>14   scenario of the dismissal of the petition and the</p> <p>15   restructuring scenario; correct?</p> <p>16       <b>A.   Well, like your question was, have I</b></p> <p>17   <b>been asked to do a dismissal scenario? Not</b></p> <p>18   <b>directly. But the baseline scenario, if you look</b></p> <p>19   <b>at some of the line items, they're going to be the</b></p> <p>20   <b>same as in a dismissal scenario, likely, which is</b></p> <p>21   <b>going to make the baseline scenario reflective on</b></p> <p>22   <b>some of those line items what the City is likely</b></p> <p>23   <b>to face.</b></p> <p>24       Q.   And some of the line items would be</p> <p>25   different in the baseline scenario and dismissal;</p>	<p style="text-align: right;">Page 151</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>you know, increasing. And there may be some</b></p> <p>3   <b>changes in pension. DDOT subsidy will continue to</b></p> <p>4   <b>go as is. So --</b></p> <p>5       Q.   Well, you agree that there's a large</p> <p>6   disparity in the recovery between the bondholder</p> <p>7   creditors and the retiree creditors under the</p> <p>8   plan; correct?</p> <p>9       MR. STEWART: Objection.</p> <p>10       THE WITNESS: I don't know what you</p> <p>11   define by "large disparity."</p> <p>12   BY MR. SMITH:</p> <p>13       Q.   Well, there's a large numerical</p> <p>14   disparity in terms of percentages that bondholders</p> <p>15   recover versus the retirees; correct?</p> <p>16       MR. STEWART: Objection.</p> <p>17       MR. ALBERTS: Objection.</p> <p>18       THE WITNESS: A large disparity? I</p> <p>19   would say that based on the assumptions that</p> <p>20   are shown in the 40-year, based on those</p> <p>21   assumptions, the pension recoveries under</p> <p>22   those assumptions are higher. OPEB is the</p> <p>23   same as some of the other unsecured</p> <p>24   creditors.</p> <p>25   BY MR. SMITH:</p>
<p style="text-align: right;">Page 150</p> <p>1                   MALHOTRA</p> <p>2   correct?</p> <p>3       <b>A.   There could be. It would be -- if I</b></p> <p>4   <b>look at each one of those line items, some of the</b></p> <p>5   <b>assumptions, for instance, on pension, right, may</b></p> <p>6   <b>or may not change. But, you know, for instance,</b></p> <p>7   <b>some of the retiree healthcare projections, I</b></p> <p>8   <b>mean, if you look at the baseline scenario -- and</b></p> <p>9   <b>again, going by memory, even if you are to add the</b></p> <p>10   <b>reinvestment expenditures in there, you're looking</b></p> <p>11   <b>at somewhere close to a \$5 billion deficit based</b></p> <p>12   <b>on the assumptions that were in there in the</b></p> <p>13   <b>baseline. And some of them will just get</b></p> <p>14   <b>replicated for a dismissal scenario.</b></p> <p>15       Q.   And there are some things you don't --</p> <p>16   you don't know what's going to happen after</p> <p>17   dismissal, right, because you haven't investigated</p> <p>18   it; correct?</p> <p>19       <b>A.   I have not done a specific analysis on</b></p> <p>20   <b>each of a dismissal scenario; but I can say that,</b></p> <p>21   <b>you know, the payroll assumptions will not change</b></p> <p>22   <b>that much. Payroll is what it is. The revenues</b></p> <p>23   <b>are -- generally are what they are. The -- I'm</b></p> <p>24   <b>trying to go by memory.</b></p> <p>25       Retiree healthcare will continue to be,</p>	<p style="text-align: right;">Page 152</p> <p>1                   MALHOTRA</p> <p>2       Q.   But my client you know is getting a lot</p> <p>3   less than other creditors in the bankruptcy;</p> <p>4   correct?</p> <p>5       <b>A.   The COPs are getting the same treatment</b></p> <p>6   <b>as OPEB and -- in terms of the numerical recovery</b></p> <p>7   <b>under the assumptions we've used and the other</b></p> <p>8   <b>unsecured creditors.</b></p> <p>9       Q.   What's the percent recovery of OPEB</p> <p>10   versus its claims?</p> <p>11       <b>A.   I think it's roughly 10 percent.</b></p> <p>12       Q.   And other unsecured creditors, who are</p> <p>13   you thinking about?</p> <p>14       <b>A.   Yeah. Those are the general other</b></p> <p>15   <b>unsecured creditors, which is about 10 percent as</b></p> <p>16   <b>well.</b></p> <p>17       Q.   And the percent of recoveries, you can't</p> <p>18   represent that those would remain the same in a</p> <p>19   dismissal situation if you don't know what percent</p> <p>20   recovery would be; correct?</p> <p>21       <b>A.   Yeah. I would not know for each one of</b></p> <p>22   <b>the classes what that would mean, because in a</b></p> <p>23   <b>dismissal, I have not thought through how each</b></p> <p>24   <b>class would get impacted. But what I can say,</b></p> <p>25   <b>based on that baseline scenario, is the City's</b></p>

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1 **MALHOTRA**

2 **access to funds, I mean, the City is likely to**

3 **have huge deficits from that baseline scenario**

4 **assumption.**

5 Q. You can't -- you can't --

6 MR. STEWART: He didn't finish his

7 answer.

8 BY MR. SMITH:

9 Q. You can't --

10 MR. STEWART: Mr. Malhotra, did you

11 finish your answer?

12 THE WITNESS: I was just about -- I

13 wanted to just make clear that the City was

14 showing huge deficits based on the

15 assumptions in that baseline scenario, and

16 some of which are going to be very similar to

17 a dismissal scenario.

18 BY MR. SMITH:

19 Q. And some of them will be different;

20 correct?

21 **A. Some of them, yes. Like pension comes**

22 **to mind, may or may not be different. I would**

23 **have to look at that.**

24 Q. And it's certainly possible some of the

25 creditors may receive higher recoveries under the

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1 **MALHOTRA**

2 dismissal scenario; correct?

3 MR. STEWART: Objection.

4 THE WITNESS: I don't know. I haven't

5 done that math.

6 BY MR. SMITH:

7 Q. Nobody from the City has asked you to do

8 that kind of analysis; correct?

9 **A. That is correct.**

10 Q. Has the City already implemented a

11 software system for improved tax collections?

12 **A. I do not know.**

13 Q. You'd agree that it's possible for the

14 City to reduce overtime if the petition is

15 dismissed; correct?

16 **A. I'm sorry. Can you please repeat that.**

17 Q. The City can reduce overtime costs if

18 the petition is dismissed; correct?

19 **A. How?**

20 Q. Not have as many overtime hours. I

21 mean, it's within the City's discretion how many

22 overtime hours that it has its workers work;

23 correct?

24 **A. No. It depends on the level of service**

25 **that has to be provided and the manpower you have,**

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1 **MALHOTRA**

2 **so --**

3 Q. And the City decides the level of

4 service; correct?

5 **A. Yes. It's the City and it's what the**

6 **citizens require for some level of service. So I**

7 **don't know if the City will be able to reduce**

8 **overtime if the bankruptcy is dismissed.**

9 Q. The City certainly has the power to

10 reduce overtime if the bankruptcy is dismissed;

11 correct?

12 **A. It would depend on the level of service**

13 **and the staffing. And my guess is within that**

14 **comes in the collective bargaining agreements, so**

15 **I'm not sure I can answer that, that the City**

16 **can -- whether the City can or cannot reduce**

17 **overtime.**

18 Q. So you haven't looked into whether the

19 City can reduce overtime if the petition is

20 dismissed; correct?

21 **A. Yeah. It's -- we have assumed that in a**

22 **baseline scenario, for instance -- maybe if I can**

23 **refer to that -- that the level of overtime is**

24 **reflective of the current overtime run rate the**

25 **City is experiencing. So if the case is**

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1 **MALHOTRA**

2 **dismissed, I don't know what impact that actually**

3 **has on that overtime.**

4 Q. Can you identify any Chapter 9

5 bankruptcy where a City claimed that it could

6 reliably costs -- costs -- forecast costs and

7 revenues over a period as long as 10 years?

8 **A. I have not looked at the other Chapter 9**

9 **plans. But this is the best information we can**

10 **pull together, at least for Detroit.**

11 Q. So there's no City that you're aware of

12 that is claiming that it could forecast costs and

13 revenues for a period as long as 10 years

14 reliably; correct?

15 **A. I do not know whether they do or do not.**

16 **I haven't done -- I haven't looked -- I haven't**

17 **undertaken an exercise to go out and look at what**

18 **other cities would be doing in this context.**

19 Q. So you haven't looked to see whether,

20 No. 1, other cities even try to forecast costs and

21 revenues for a period as long as ten years;

22 correct? That's not something you've

23 investigated?

24 **A. I have not, no.**

25 Q. And you also haven't looked --

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<p style="text-align: right;">Page 157</p> <p>1 MALHOTRA</p> <p>2 investigated what methods, if anything, a city</p> <p>3 that has been -- that might attempt to forecast</p> <p>4 costs or revenues over a period as long as 10</p> <p>5 years has used to ascertain what reliable methods</p> <p>6 are out there that have been used?</p> <p>7 <b>A. I'm sorry. That was way too long a</b></p> <p>8 <b>question.</b></p> <p>9 Q. You haven't done any investigation to</p> <p>10 identify whether there are methods that have</p> <p>11 reliably been used to estimate costs and revenues</p> <p>12 for a City for a period as long as 10 years;</p> <p>13 correct?</p> <p>14 <b>A. Cities' revenues are made up of taxes.</b></p> <p>15 <b>And if you keep the tax policy essentially the</b></p> <p>16 <b>same, the rest of it is pretty straightforward.</b></p> <p>17 <b>Expenses, mostly the City's expenses are headcount</b></p> <p>18 <b>and legacy liabilities-related.</b></p> <p>19 <b>So there isn't -- I mean, there's</b></p> <p>20 <b>articles out there in financial journals on</b></p> <p>21 <b>municipal accounting and municipal budgeting,</b></p> <p>22 <b>so -- you know, which I read off and on. So I</b></p> <p>23 <b>think through a methodology standpoint, there is</b></p> <p>24 <b>no scientific methodology in this -- in Detroit</b></p> <p>25 <b>that would be different for any other city.</b></p>	<p style="text-align: right;">Page 159</p> <p>1 MALHOTRA</p> <p>2 <b>A. That would be a question for Conway</b></p> <p>3 <b>MacKenzie, because I know there's some fees in the</b></p> <p>4 <b>restructuring of the investment initiatives,</b></p> <p>5 <b>operational revenue line items. So that would be</b></p> <p>6 <b>a question for them, whether they have.</b></p> <p>7 Q. You agree that Detroit has the power to</p> <p>8 raise additional revenues by implementing new</p> <p>9 fees; correct?</p> <p>10 <b>A. No. It depends on whether you can</b></p> <p>11 <b>collect those fees and what the expenses are to</b></p> <p>12 <b>collect those revenues and what you are levying</b></p> <p>13 <b>fees on.</b></p> <p>14 Q. Okay. But there's the potential for</p> <p>15 additional revenue to be generated by implementing</p> <p>16 new fees; correct?</p> <p>17 <b>A. As long as the new fees -- the expenses</b></p> <p>18 <b>incurred to generate new fees don't exceed the</b></p> <p>19 <b>fees. I mean, I don't -- if there's a specific</b></p> <p>20 <b>fee that you're referring to, it would be easier</b></p> <p>21 <b>for me to comprehend. But it's just -- if you</b></p> <p>22 <b>increase any new fee, depends on whether you're</b></p> <p>23 <b>going to collect it, the costs you're going to</b></p> <p>24 <b>incur to collect it.</b></p> <p>25 Q. And you may have included additional</p>
<p style="text-align: right;">Page 158</p> <p>1 MALHOTRA</p> <p>2 Q. Can you identify one article on</p> <p>3 municipal budgeting that you've read?</p> <p>4 <b>A. Not off the top of my head, but there's</b></p> <p>5 <b>governing publications that I get every week, and</b></p> <p>6 <b>there's -- also articles, I think -- or there's</b></p> <p>7 <b>articles that talk about long-term budgets</b></p> <p>8 <b>potentially. But I haven't studied it in detail.</b></p> <p>9 Q. And there's no literature cited in</p> <p>10 any -- in your report that would support your</p> <p>11 methodology; correct?</p> <p>12 <b>A. That's right, because as I mentioned,</b></p> <p>13 <b>the methodology is pretty straightforward for a</b></p> <p>14 <b>municipality when you look at the taxes -- when</b></p> <p>15 <b>you look at revenue base and you look at the</b></p> <p>16 <b>expense base. If you keep policy assumptions</b></p> <p>17 <b>aside, it's a pretty straightforward analysis.</b></p> <p>18 <b>Just like you would do with any other corporation,</b></p> <p>19 <b>it's just financial forecasting.</b></p> <p>20 Q. Have you published any publications on</p> <p>21 forecasting?</p> <p>22 <b>A. I have not.</b></p> <p>23 Q. Are there -- in your forecasts, have you</p> <p>24 included any sums attributable to new fees imposed</p> <p>25 by the City that it's not currently imposing?</p>	<p style="text-align: right;">Page 160</p> <p>1 MALHOTRA</p> <p>2 revenues from new fees in your forecast; you just</p> <p>3 don't know, sitting here today; correct?</p> <p>4 <b>A. No, I did not say that. I said in the</b></p> <p>5 <b>Conway MacKenzie revenue initiatives that were</b></p> <p>6 <b>specifically highlighted, there are fees. I just</b></p> <p>7 <b>don't know if they're new fees or not. But I</b></p> <p>8 <b>think that would be a question to ask them.</b></p> <p>9 Q. Okay. So you don't know whether your</p> <p>10 forecast is assuming there will be new fees or</p> <p>11 not, sitting here today?</p> <p>12 <b>A. I would have to go back and look at --</b></p> <p>13 <b>if I had the exhibits, I would be able to go back</b></p> <p>14 <b>and look at the details and try and ascertain if</b></p> <p>15 <b>they are new or not.</b></p> <p>16 Q. Okay. That would be details that were</p> <p>17 provided to you by Conway MacKenzie that you would</p> <p>18 have to look back to?</p> <p>19 <b>A. Yes. Those are line items I would look</b></p> <p>20 <b>at.</b></p> <p>21 Q. Do you agree that the City of Detroit</p> <p>22 has a long history of fiscal mismanagement?</p> <p>23 <b>A. I would say that the City historically</b></p> <p>24 <b>has run deficits. Fiscal mismanagement, you know,</b></p> <p>25 <b>I don't want to comment on that. I would say the</b></p>

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<p style="text-align: right;">Page 161</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>City has historically run deficits.</b></p> <p>3       Q. Do you agree that the City has been in</p> <p>4   poor fiscal condition for decades?</p> <p>5       <b>A. I wouldn't be able to comment on</b></p> <p>6   <b>decades. I've looked at the last four or five</b></p> <p>7   <b>years, that's what I can comment upon.</b></p> <p>8       Q. Has the City been in poor fiscal</p> <p>9   condition for the last four or five years you've</p> <p>10   examined?</p> <p>11       <b>A. The City has been actually, yes,</b></p> <p>12   <b>suffering deficits. And so that is what I can</b></p> <p>13   <b>comment upon. The City's expenses have exceeded</b></p> <p>14   <b>its revenues over the last four or five years.</b></p> <p>15       Q. Before the current petition for</p> <p>16   bankruptcy was filed, are you aware of anybody in</p> <p>17   the City of Detroit suggesting that it should file</p> <p>18   for bankruptcy within the last four or five years</p> <p>19   that you've examined?</p> <p>20       <b>A. I'm sorry. Can you say it again.</b></p> <p>21       Q. If you've looked at a four- or five-year</p> <p>22   period during which Detroit had a poor fiscal</p> <p>23   condition, are you aware of anybody recommending</p> <p>24   that Detroit enter Chapter 9 bankruptcy before the</p> <p>25   current petition was filed?</p>	<p style="text-align: right;">Page 163</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>getting educated with the financial constraints</b></p> <p>3   <b>that Detroit was feeling.</b></p> <p>4       Q. Are you aware that there are other</p> <p>5   cities of Michigan that are under the supervision</p> <p>6   of an emergency manager?</p> <p>7       <b>A. Yes.</b></p> <p>8       Q. How many cities?</p> <p>9       <b>A. I don't know.</b></p> <p>10       Q. It's approximately six or so. Is</p> <p>11   that --</p> <p>12       <b>A. I don't know.</b></p> <p>13       Q. Don't know.</p> <p>14       And there are other cities in Michigan</p> <p>15   that are facing fiscal distress; correct?</p> <p>16       <b>A. What's your definition of "fiscal</b></p> <p>17   <b>distress."</b></p> <p>18       Q. Well, significant enough that they've</p> <p>19   triggered an emergency manager under the statutory</p> <p>20   scheme; correct?</p> <p>21       <b>A. If that's what your definition of</b></p> <p>22   <b>"fiscal distress" is and there is an emergency</b></p> <p>23   <b>manager, yeah, likely.</b></p> <p>24       Q. What's your definition of "fiscal</p> <p>25   distress"? I mean, do you have one or not?</p>
<p style="text-align: right;">Page 162</p> <p>1                   <b>MALHOTRA</b></p> <p>2       <b>A. I do not know. And when you say "poor</b></p> <p>3   <b>fiscal," I just want to be clear: Detroit was</b></p> <p>4   <b>running deficits. Its expenses exceeded its</b></p> <p>5   <b>revenues. In terms of -- and your second question</b></p> <p>6   <b>was about filing for bankruptcy prior to -- can</b></p> <p>7   <b>you please repeat me. Sorry.</b></p> <p>8       Q. If the four or five years that you've</p> <p>9   looked at when Detroit was running deficits, are</p> <p>10   you aware of anybody recommending Detroit enter</p> <p>11   Chapter 9 before the current petition was filed?</p> <p>12       <b>A. I don't know if somebody had or had not</b></p> <p>13   <b>recommended. But four or five years is a long</b></p> <p>14   <b>time. I looked at the financial results of</b></p> <p>15   <b>Detroit during those four or five years. I was</b></p> <p>16   <b>not around in Detroit for the last four or five</b></p> <p>17   <b>years.</b></p> <p>18       Q. But you were not aware of anybody</p> <p>19   recommending that?</p> <p>20       <b>A. During what time frame?</b></p> <p>21       Q. The last four or five years.</p> <p>22       <b>A. Before the bankruptcy? I don't know.</b></p> <p>23   <b>It could have been. I mean, there was always</b></p> <p>24   <b>discussions that you can -- what happens in</b></p> <p>25   <b>Chapter 9 versus what doesn't? People were just</b></p>	<p style="text-align: right;">Page 164</p> <p>1                   <b>MALHOTRA</b></p> <p>2       <b>A. Not off the top of my head right now.</b></p> <p>3   <b>But I just want to make sure I'm answering your</b></p> <p>4   <b>question appropriately when you ask fiscal</b></p> <p>5   <b>distress. I mean, your previous question was</b></p> <p>6   <b>about an emergency manager, which there are cities</b></p> <p>7   <b>that have emergency managers.</b></p> <p>8       Q. Are you aware of any other city in</p> <p>9   Michigan that's in Chapter 9 bankruptcy?</p> <p>10       <b>A. No, I am not.</b></p> <p>11       Q. You mentioned that you had done some</p> <p>12   work for the Detroit Public Schools; correct?</p> <p>13       <b>A. Yes.</b></p> <p>14       Q. And the -- did the Detroit Public</p> <p>15   Schools undergo a restructuring?</p> <p>16       <b>A. Not a formal restructuring from a</b></p> <p>17   <b>Chapter 9 perspective, no.</b></p> <p>18       Q. But did the Detroit Public Schools</p> <p>19   undergo a restructuring in the sense of cutting</p> <p>20   costs and improving revenues in order to improve</p> <p>21   their fiscal condition?</p> <p>22       <b>A. There was some -- there was some</b></p> <p>23   <b>restructuring that did go on at Detroit Public</b></p> <p>24   <b>Schools, but the issues were sort of different.</b></p> <p>25       Q. Okay. Were you involved in that</p>

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<p style="text-align: right;">Page 165</p> <p>1 MALHOTRA</p> <p>2 restructuring?</p> <p>3 <b>A. To a certain extent, yes.</b></p> <p>4 Q. What extent -- what was your role in the</p> <p>5 restructuring of the Detroit Public Schools?</p> <p>6 <b>A. All of the -- we were assisting the</b></p> <p>7 <b>schools in terms of looking at the cash-flow</b></p> <p>8 <b>projections, looking at their assumptions in terms</b></p> <p>9 <b>of what the student count would be and how the</b></p> <p>10 <b>district would have to address its short-term and</b></p> <p>11 <b>long-term obligations and what some of the options</b></p> <p>12 <b>were.</b></p> <p>13 Q. And the Detroit Public Schools cut costs</p> <p>14 in order to improve their fiscal situation;</p> <p>15 correct?</p> <p>16 <b>A. Yes.</b></p> <p>17 Q. And nobody from -- in the Detroit Public</p> <p>18 Schools suggested that they enter Chapter 9;</p> <p>19 correct?</p> <p>20 <b>A. There were -- in any distress situation</b></p> <p>21 <b>these days, you always have discussions on what a</b></p> <p>22 <b>Chapter 9 could or could not mean.</b></p> <p>23 Q. Okay. But the Detroit Public Schools</p> <p>24 successfully restructured without entering</p> <p>25 Chapter 9; correct?</p>	<p style="text-align: right;">Page 167</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>not the City of Detroit.</b></p> <p>3 Q. Okay. Is the Detroit Public Schools,</p> <p>4 have they been operating in a deficit situation?</p> <p>5 <b>A. For what year?</b></p> <p>6 Q. For the last -- for the years during</p> <p>7 which you've been working for them.</p> <p>8 <b>A. Well, I was working for them three years</b></p> <p>9 <b>ago.</b></p> <p>10 Q. Oh, okay. For the last three years,</p> <p>11 have the Detroit Public Schools been operating at</p> <p>12 a deficit?</p> <p>13 <b>A. I would have to go back and look.</b></p> <p>14 Q. The Detroit Public Schools haven't</p> <p>15 entered Chapter 9; correct?</p> <p>16 <b>A. Sorry?</b></p> <p>17 Q. The Detroit Public School System has not</p> <p>18 entered Chapter 9; correct?</p> <p>19 <b>A. That is correct.</b></p> <p>20 Q. And does the Detroit Public Schools owe</p> <p>21 money to the general fund?</p> <p>22 <b>A. To the City's general fund?</b></p> <p>23 Q. To the City's general fund.</p> <p>24 <b>A. I think so. But I would have to go back</b></p> <p>25 <b>and check. But I think there is a reconciliation</b></p>
<p style="text-align: right;">Page 166</p> <p>1 MALHOTRA</p> <p>2 <b>A. I wouldn't say that.</b></p> <p>3 Q. Why wouldn't you say that?</p> <p>4 <b>A. I don't know what your definition of</b></p> <p>5 <b>"successfully restructuring" is.</b></p> <p>6 Q. Okay. Well --</p> <p>7 <b>A. Detroit Public Schools hasn't filed</b></p> <p>8 <b>Chapter 9 in the last three years, but I don't</b></p> <p>9 <b>know what your definition of "successfully</b></p> <p>10 <b>structuring" is.</b></p> <p>11 Q. Okay. The Detroit Public Schools</p> <p>12 improved its fiscal condition; correct?</p> <p>13 <b>A. If you followed the budgets of Detroit</b></p> <p>14 <b>Public Schools in the last couple of years, they</b></p> <p>15 <b>have not improved that significantly.</b></p> <p>16 Q. The Detroit Public Schools has --</p> <p>17 they -- are they in bad fiscal shape, or are they</p> <p>18 in good fiscal shape?</p> <p>19 <b>A. I can't comment on that. You should</b></p> <p>20 <b>look at their budgets to ascertain whether they</b></p> <p>21 <b>are or are not.</b></p> <p>22 Q. I get to ask the questions, and then you</p> <p>23 can give me your comment on it.</p> <p>24 <b>A. I don't want to comment on what the</b></p> <p>25 <b>fiscal condition is of an ongoing client that is</b></p>	<p style="text-align: right;">Page 168</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>between what the City owes Detroit Public Schools</b></p> <p>3 <b>for some tax payments and what the Detroit Public</b></p> <p>4 <b>Schools owes the City for some utilities. So</b></p> <p>5 <b>there's back-and-forth on some reconciliations.</b></p> <p>6 Q. And is that reflected in your forecast?</p> <p>7 <b>A. I would have to go back and check in the</b></p> <p>8 <b>public lighting department revenues, if there's</b></p> <p>9 <b>any past-due reconciliation.</b></p> <p>10 <b>But it would -- at least ongoing future</b></p> <p>11 <b>amounts would continue to get reflected in the</b></p> <p>12 <b>revenues that would be forecasted.</b></p> <p>13 Q. Are all outstanding debts owed to the</p> <p>14 general fund reflected in your forecast or not?</p> <p>15 <b>A. If all delinquent bills that Detroit may</b></p> <p>16 <b>have or the general fund may have are -- you know,</b></p> <p>17 <b>I do not know what those amounts are, how much of</b></p> <p>18 <b>those amounts hold any merit. So I do not recall</b></p> <p>19 <b>of any specific bad-debt collection, for instance,</b></p> <p>20 <b>that is baked into the forecast.</b></p> <p>21 Q. Are all amounts owed to the general fund</p> <p>22 from other funds or public entities in the City of</p> <p>23 Detroit reflected in your forecast?</p> <p>24 <b>A. To the best of our ability, the "due to,</b></p> <p>25 <b>due froms," other funds would constantly get</b></p>

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<p style="text-align: right;">Page 169</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>updated, yes.</b></p> <p>3       Q. But delinquent debts are not reflected</p> <p>4   in your forecast; correct?</p> <p>5       <b>A. I don't know what those delinquent debts</b></p> <p>6   <b>are. So . . .</b></p> <p>7       Q. Why is it that you don't know what the</p> <p>8   delinquent debts owed to the general fund are?</p> <p>9       <b>A. From whom?</b></p> <p>10      Q. From -- are from the people that you're</p> <p>11   not incorporating into your forecast. I guess --</p> <p>12   the ones that, you know, are owed to the general</p> <p>13   fund, why can't you just ask the City what debts</p> <p>14   are owed to you? Give me a list of them so I can</p> <p>15   plug them into my forecast.</p> <p>16      MR. STEWART: So what's the question?</p> <p>17   BY MR. SMITH:</p> <p>18      Q. I guess my question is, why is it that</p> <p>19   the City can't tell you what debts are owed to it?</p> <p>20      MR. STEWART: Objection.</p> <p>21      THE WITNESS: Let me start with looking</p> <p>22   at the components of the revenue. All right?</p> <p>23      When you look at income taxes in terms</p> <p>24   of what the income tax collection process is,</p> <p>25   what the City's best estimate for its</p>	<p style="text-align: right;">Page 171</p> <p>1                   <b>MALHOTRA</b></p> <p>2   fees, again, there's amnesty programs that</p> <p>3   are offered so that people are caught up.</p> <p>4       So it's not as easy as going to a</p> <p>5   corporation and running an accounts</p> <p>6   receivable aging report and saying, you know,</p> <p>7   Let's go have -- collect these taxes. The</p> <p>8   City does try its -- at least its efforts to</p> <p>9   go out and improve collections.</p> <p>10      But, I mean, I could -- we could walk</p> <p>11   through each one of the line items in more</p> <p>12   detail.</p> <p>13   BY MR. SMITH:</p> <p>14      Q. I get it. So it's not possible, given</p> <p>15   the information you have, to estimate how much the</p> <p>16   City is owed in delinquent debt obligations; is</p> <p>17   that fair?</p> <p>18      <b>A. Yeah, I do not have that information;</b></p> <p>19   <b>that's correct.</b></p> <p>20      Q. The Detroit Public Schools, are you</p> <p>21   aware that there was an emergency manager</p> <p>22   appointed to supervise them?</p> <p>23      <b>A. Yes.</b></p> <p>24      Q. And are you aware that the Detroit</p> <p>25   Public Schools depend on property tax revenue for</p>
<p style="text-align: right;">Page 170</p> <p>1                   <b>MALHOTRA</b></p> <p>2   estimated revenues are, and then the City's</p> <p>3   internal process to send reminders and</p> <p>4   notices for those people that have not filed</p> <p>5   income tax returns; after that, the City also</p> <p>6   goes through a process in which it provides</p> <p>7   amnesty programs. So that's income taxes.</p> <p>8       When you look at the property taxes and</p> <p>9   you look at the residential component, the</p> <p>10   City sends out its property tax bill. Within</p> <p>11   that property tax bill, if the property owner</p> <p>12   has not paid the property taxes, that</p> <p>13   receivable doesn't just become delinquent,</p> <p>14   because that then gets transferred to Wayne</p> <p>15   County.</p> <p>16      Wayne County actually advances the City</p> <p>17   pretty much what that delinquent receivable</p> <p>18   was. And after a process in which they can</p> <p>19   even foreclose on the property or not and if</p> <p>20   they have recovered enough taxes or not, they</p> <p>21   basically do a charge back to the City.</p> <p>22      So in the first -- it's sort of -- it's</p> <p>23   a delinquent tax revolving fund. But my</p> <p>24   point is you have to look at every component.</p> <p>25   When you look at past-due parking fines and</p>	<p style="text-align: right;">Page 172</p> <p>1                   <b>MALHOTRA</b></p> <p>2   their operations?</p> <p>3       <b>A. As one of the revenue sources that</b></p> <p>4   <b>Detroit Public School has, property taxes is one</b></p> <p>5   <b>of them.</b></p> <p>6       Q. And grant revenue is another source of</p> <p>7   funding for the Detroit Public Schools?</p> <p>8       <b>A. Yes, and State aid.</b></p> <p>9       Q. And why are you no longer working for</p> <p>10   the Detroit Public Schools?</p> <p>11      <b>A. I have recently been reengaged by</b></p> <p>12   <b>Detroit Public Schools.</b></p> <p>13      Q. When was that?</p> <p>14      <b>A. Last month.</b></p> <p>15      Q. And who hired you?</p> <p>16      <b>A. The emergency manager.</b></p> <p>17      Q. And have you looked at the Detroit</p> <p>18   Public Schools' most recent budget?</p> <p>19      <b>A. Yes.</b></p> <p>20      Q. Okay. And are the Detroit Public</p> <p>21   Schools running a surplus?</p> <p>22      <b>A. You would have to look at their CAFR for</b></p> <p>23   <b>that. Their budget generally is always balanced.</b></p> <p>24      Q. And from reviewing their budget, you're</p> <p>25   aware that they've been cutting costs; correct?</p>

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<p style="text-align: right;">Page 173</p> <p>1 MALHOTRA</p> <p>2 <b>A. No.</b></p> <p>3 Q. You don't know -- I mean, do you know</p> <p>4 one way or the other whether the Detroit Public</p> <p>5 Schools have been cutting costs under the</p> <p>6 supervision of the emergency manager?</p> <p>7 <b>A. I wouldn't be able to comment on that.</b></p> <p>8 Q. Do you know that there have been school</p> <p>9 closings in the City of Detroit Public Schools?</p> <p>10 <b>A. Yes; and the student headcount has also</b></p> <p>11 <b>dropped consistently in terms of reduced revenues.</b></p> <p>12 Q. And you agree that as population</p> <p>13 declines, there's some services for which you can</p> <p>14 reduce expenditures, because there's a reduced</p> <p>15 population; correct?</p> <p>16 <b>A. It depends over what time frame and what</b></p> <p>17 <b>level of service you want to provide.</b></p> <p>18 Q. Yeah. But you agree with me that there</p> <p>19 are some services that if population declines,</p> <p>20 then the need for those services declines and you</p> <p>21 can reduce the costs of the services; correct?</p> <p>22 <b>A. No. And the reason for that is, you</b></p> <p>23 <b>have to look at which services you're offering and</b></p> <p>24 <b>how much of that is actually almost a fixed-cap</b></p> <p>25 <b>cost and how much of a population reduction have</b></p>	<p style="text-align: right;">Page 175</p> <p>1 MALHOTRA</p> <p>2 you can reduce without adverse impact to the</p> <p>3 citizens as the population declines; correct?</p> <p>4 MR. STEWART: Objection.</p> <p>5 THE WITNESS: I don't know about that.</p> <p>6 It depends. It depends. You have to look at</p> <p>7 this almost on a department-by-department</p> <p>8 basis, is an easier way to look at it.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. Yeah. I'm asking just some. There are</p> <p>11 some services like that.</p> <p>12 <b>A. Why don't you just ask me that question</b></p> <p>13 <b>again, please. I'm sorry.</b></p> <p>14 Q. There are some services that you can --</p> <p>15 that are -- that are tied to the level of</p> <p>16 population that you can reduce as population</p> <p>17 declines; correct?</p> <p>18 MR. STEWART: Objection.</p> <p>19 THE WITNESS: As population declines and</p> <p>20 if you decide -- and if the City decides to</p> <p>21 reduce the level of services, it may or may</p> <p>22 not be. I mean, you have -- the reason I'm</p> <p>23 saying this, if you look at the public</p> <p>24 lighting department and you're still buying</p> <p>25 electricity on the grid, so you just have to</p>
<p style="text-align: right;">Page 174</p> <p>1 MALHOTRA</p> <p>2 <b>you suffered, if it's a small population decline</b></p> <p>3 <b>or if it's large, or what time frame or what area</b></p> <p>4 <b>you have to provide that service.</b></p> <p>5 <b>And so I just want to make it more</b></p> <p>6 <b>defined in terms of what population decline and --</b></p> <p>7 <b>or what time frame. In general, if you are</b></p> <p>8 <b>providing less services, the assumption would be</b></p> <p>9 <b>that those should cost less. I'm comfortable</b></p> <p>10 <b>saying that.</b></p> <p>11 Q. Okay. So if you have a large population</p> <p>12 of clients, such as you say that Detroit has</p> <p>13 suffered, you can afford to reduce some City</p> <p>14 services, correct, because there's less</p> <p>15 population?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: As the City has already --</p> <p>18 the City has already done that.</p> <p>19 BY MR. SMITH:</p> <p>20 Q. Okay. And so there are some services</p> <p>21 that you may want to continue at the same levels</p> <p>22 even if there's a population decline; correct?</p> <p>23 <b>A. I'm sure that that could -- I think so,</b></p> <p>24 <b>yes.</b></p> <p>25 Q. And then there are some services that</p>	<p style="text-align: right;">Page 176</p> <p>1 MALHOTRA</p> <p>2 look at it on a piece-by-piece basis, which</p> <p>3 is just --</p> <p>4 BY MR. SMITH:</p> <p>5 Q. Yeah. I'm not saying all services.</p> <p>6 MR. STEWART: Let him finish his answer.</p> <p>7 THE WITNESS: There may be -- if the</p> <p>8 level of service from the City declines,</p> <p>9 there is a possibility that the level of cost</p> <p>10 that the City has to incur will be less, I'm</p> <p>11 comfortable saying that.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. Yeah. And as population declines, there</p> <p>14 are some services that a City can reduce and</p> <p>15 reduce its costs; correct?</p> <p>16 <b>A. It's possible.</b></p> <p>17 Q. Before the Chapter 9 plan, did the City</p> <p>18 ever look at ways to reduce its pension</p> <p>19 liabilities?</p> <p>20 <b>A. Not directly in terms of what -- the</b></p> <p>21 <b>City was deferring pension contributions; but I</b></p> <p>22 <b>don't know if the overall magnitude of the</b></p> <p>23 <b>liability as such was being reduced.</b></p> <p>24 <b>But I do recall that the City was</b></p> <p>25 <b>continuing to defer pension contributions, but I</b></p>

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<p style="text-align: right;">Page 177</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>would have to go back and think if the liability</b></p> <p>3 <b>reduction was a part of it or not.</b></p> <p>4 Q. Did the City lobby the State for</p> <p>5 additional funds since you've been working with</p> <p>6 them to help it improve its fiscal situation?</p> <p>7 <b>A. I do not know. I mean --</b></p> <p>8 Q. Okay. You're not --</p> <p>9 <b>A. If the City -- if the administration or</b></p> <p>10 <b>council did, I do not specifically know.</b></p> <p>11 Q. Well, you agree that the State could</p> <p>12 improve the fiscal situation of the City by</p> <p>13 contributing additional funds to the City;</p> <p>14 correct?</p> <p>15 <b>A. I do not know about that. If -- if the</b></p> <p>16 <b>City -- if somebody provides the City more money,</b></p> <p>17 <b>the City will have more money.</b></p> <p>18 Q. Okay. And its fiscal situation would be</p> <p>19 better than it otherwise would; correct?</p> <p>20 <b>A. If -- if all these other assumptions are</b></p> <p>21 <b>held constant, that's just a net add. If the City</b></p> <p>22 <b>would have more money -- the reason I'm being</b></p> <p>23 <b>clear about this, the fiscal situation of the City</b></p> <p>24 <b>is not just a one-year situation. It's a</b></p> <p>25 <b>long-term situation that deals with its legacy</b></p>	<p style="text-align: right;">Page 179</p> <p>1 <b>MALHOTRA</b></p> <p>2 fiscal situation; correct?</p> <p>3 <b>A. Any additional money over the</b></p> <p>4 <b>assumptions in the current forecast with the</b></p> <p>5 <b>current assumptions; because new -- I want to make</b></p> <p>6 <b>clear: If there's new federal money or new state</b></p> <p>7 <b>money and there's new expenses, that does not</b></p> <p>8 <b>improve the financial profile.</b></p> <p>9 <b>So what I want to make clear is, if you</b></p> <p>10 <b>hold everything else constant and you just add</b></p> <p>11 <b>more money into the mix, yes, it makes the picture</b></p> <p>12 <b>better. But I want to make sure that distinction</b></p> <p>13 <b>is clear, that if there is new funding that's</b></p> <p>14 <b>available but there are new expenses that need to</b></p> <p>15 <b>be funded, then the position doesn't -- does not</b></p> <p>16 <b>get better.</b></p> <p>17 Q. Are you aware that Detroit has had to</p> <p>18 return money to the federal government that it</p> <p>19 received in grants because it didn't utilize the</p> <p>20 funds in a timely manner?</p> <p>21 <b>A. I do not know about that specific</b></p> <p>22 <b>example. I would have to go back and look into</b></p> <p>23 <b>that.</b></p> <p>24 Q. Okay. You don't know what the treatment</p> <p>25 is in your forecast in terms of if there are these</p>
<p style="text-align: right;">Page 178</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>liabilities. But if you're saying that -- that</b></p> <p>3 <b>the assumption is the City has more money, that's</b></p> <p>4 <b>better for the City. Yes.</b></p> <p>5 Q. Yeah. And increasing revenue sharing,</p> <p>6 if the State did that, that would be better for</p> <p>7 the City; correct?</p> <p>8 <b>A. If the revenue-sharing amount were</b></p> <p>9 <b>higher and everything else were held constant, you</b></p> <p>10 <b>could -- that assumption would result in more</b></p> <p>11 <b>money for a particular time frame. I don't know</b></p> <p>12 <b>what time frame, because the State aid is no</b></p> <p>13 <b>longer -- the portion of the State aid is no</b></p> <p>14 <b>longer driven by the legislature in terms of</b></p> <p>15 <b>having a specific appropriation every year.</b></p> <p>16 <b>So you have to look at these things over</b></p> <p>17 <b>what time frame, whether it's short- or long-term.</b></p> <p>18 Q. Any additional money that the State</p> <p>19 provides the City will improve its fiscal</p> <p>20 situation; correct?</p> <p>21 <b>A. Any additional money that the City gets,</b></p> <p>22 <b>with everything else being constant, is better for</b></p> <p>23 <b>the City, yes.</b></p> <p>24 Q. And any additional money the federal</p> <p>25 government provides the City will improve its</p>	<p style="text-align: right;">Page 180</p> <p>1 <b>MALHOTRA</b></p> <p>2 clawbacks of federal funds, how those were treated</p> <p>3 going forward in your forecast, whether they're</p> <p>4 assumed to continue at the same rate or not?</p> <p>5 <b>A. I would have to go back and look at</b></p> <p>6 <b>that. If the general fund is responsible in any</b></p> <p>7 <b>way for any clawback, I would have to look into</b></p> <p>8 <b>that.</b></p> <p>9 Q. Are there actions that you're aware of</p> <p>10 that we haven't discussed yet that the City has</p> <p>11 discussed potentially taking in the future that</p> <p>12 would increase revenues or decrease costs,</p> <p>13 potentially?</p> <p>14 <b>A. Nothing that comes to the top of my head</b></p> <p>15 <b>right now.</b></p> <p>16 Q. Are you generally included in</p> <p>17 discussions regarding actions the City might take</p> <p>18 to increase revenues or decrease costs?</p> <p>19 <b>A. It depends on how substantive the item</b></p> <p>20 <b>is.</b></p> <p>21 Q. So you're not always included in those</p> <p>22 discussions?</p> <p>23 <b>A. I wouldn't be included in every single</b></p> <p>24 <b>discussion that happens at the City about revenues</b></p> <p>25 <b>and expenses.</b></p>

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<p style="text-align: right;">Page 181</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. What project are you undertaking for the</p> <p>3 Detroit Public Schools that you've just been</p> <p>4 retained for?</p> <p>5 <b>A. That's confidential.</b></p> <p>6 Q. Does it have anything to do with this</p> <p>7 case?</p> <p>8 <b>A. It does not have anything to do with</b></p> <p>9 <b>this case.</b></p> <p>10 Q. And how was it that you came about that</p> <p>11 engagement? Did that have anything to do with</p> <p>12 this case?</p> <p>13 <b>A. No.</b></p> <p>14 Q. In your view, was the creditor plan a</p> <p>15 viable plan, the one that was proposed before the</p> <p>16 bankruptcy?</p> <p>17 MR. STEWART: Objection.</p> <p>18 THE WITNESS: I think it was the best</p> <p>19 information the City had, so -- and -- about</p> <p>20 the amount of resources the City would have</p> <p>21 over the next 10 years.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. And the City concluded that it could, in</p> <p>24 the creditor plan, implement its restructuring</p> <p>25 initiatives outside of Chapter 9; correct?</p>	<p style="text-align: right;">Page 183</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>judgment scenario projections?</b></p> <p>3 Q. Why don't we start currently. What are</p> <p>4 the biggest drivers for the City's costs?</p> <p>5 <b>A. Salaries, wages -- I'm sorry. Salaries</b></p> <p>6 <b>and wages. Historically it's been retiree</b></p> <p>7 <b>healthcare, pension, debt service, the Department</b></p> <p>8 <b>of Transportation subsidy. Those are sort of the</b></p> <p>9 <b>big ones that come to mind.</b></p> <p>10 Q. And under the restructuring scenario,</p> <p>11 the biggest drivers for the City's cost, do they</p> <p>12 change?</p> <p>13 <b>A. Yes, they do.</b></p> <p>14 Q. Okay. What are the biggest drivers for</p> <p>15 the City's cost under the restructuring scenario?</p> <p>16 <b>A. It would be salaries, wages, pension,</b></p> <p>17 <b>the reinvestment expenditures. City does not --</b></p> <p>18 <b>the OPEB and unsecured debt obligations are</b></p> <p>19 <b>reduced.</b></p> <p>20 Q. Are the unsecured -- I mean, are the</p> <p>21 OPEB, is that still a big cost driver under the</p> <p>22 restructuring scenario or not?</p> <p>23 <b>A. It is not. It's -- it is -- it's been</b></p> <p>24 <b>reduced significantly.</b></p> <p>25 Q. But the City adds a large cost driver</p>
<p style="text-align: right;">Page 182</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. If everybody had agreed and the City</b></p> <p>3 <b>could have moved forward, in terms of having</b></p> <p>4 <b>consensual agreements with its creditors.</b></p> <p>5 Q. Have you done any runs of your forecast</p> <p>6 where you changed assumptions or inputs to see how</p> <p>7 those affected the total revenues or expenditures</p> <p>8 in your forecast?</p> <p>9 <b>A. I'm sorry. Can you repeat that.</b></p> <p>10 Q. Have you done any sensitivity analyses</p> <p>11 or alternative scenarios for your forecast to see</p> <p>12 how changing different inputs in the forecast</p> <p>13 impact the results?</p> <p>14 <b>A. We run the various iterations of the</b></p> <p>15 <b>model, which I'm sure all of you already have.</b></p> <p>16 <b>So, I mean, those are all different iterations.</b></p> <p>17 Q. What are the biggest drivers of City</p> <p>18 revenues?</p> <p>19 <b>A. It's the top five revenues, which is</b></p> <p>20 <b>property taxes, income taxes, sales and charges</b></p> <p>21 <b>for services, State aid, casino taxes.</b></p> <p>22 Q. What are the biggest drivers for the</p> <p>23 City's costs?</p> <p>24 <b>A. Salaries -- well, I'm sorry. Under what</b></p> <p>25 <b>scenario? Under post -- under the plan of</b></p>	<p style="text-align: right;">Page 184</p> <p>1 <b>MALHOTRA</b></p> <p>2 under the restructuring scenario in terms of the</p> <p>3 restructuring and reinvestment expenditures;</p> <p>4 correct?</p> <p>5 <b>A. Yes. But also, again, I would like</b></p> <p>6 <b>clarity. Are you talking about 10 years or 40</b></p> <p>7 <b>years?</b></p> <p>8 Q. Well, either 10 or 40 years. I guess</p> <p>9 the reinvestment moneys, are they all spent in the</p> <p>10 10 years?</p> <p>11 <b>A. They are. So for the 10 years, I would</b></p> <p>12 <b>like to draw clarification, because the top five</b></p> <p>13 <b>revenue items would be the property taxes, the</b></p> <p>14 <b>sale taxes for services, the income taxes, but</b></p> <p>15 <b>also the proceeds received from the grand bargain,</b></p> <p>16 <b>which are significant over the first 10 years, and</b></p> <p>17 <b>the moneys coming in from the assumption of the</b></p> <p>18 <b>Detroit Water and Sewer Department. And the</b></p> <p>19 <b>expenses are really not as high on pension because</b></p> <p>20 <b>they're being funded by an alternate source in the</b></p> <p>21 <b>first 10.</b></p> <p>22 <b>But, really, salaries and wages and sort</b></p> <p>23 <b>of the core operating and reinvestment costs, and</b></p> <p>24 <b>then, of course, some retiree healthcare and debt</b></p> <p>25 <b>service. But the point is in the first 10 years,</b></p>

Pages 181 to 184

<p style="text-align: right;">Page 185</p> <p>1                   <b>MALHOTRA</b></p> <p>2    <b>the City's, you know, revenues and expenses are</b></p> <p>3    <b>slightly different than when you look at it over a</b></p> <p>4    <b>40-year picture.</b></p> <p>5       Q. I mean, the pension costs aren't being</p> <p>6    significantly cut under the restructuring plan;</p> <p>7    correct?</p> <p>8       <b>A. No, that's not correct.</b></p> <p>9       Q. Well, they're being funded from a</p> <p>10   different source; is that correct?</p> <p>11       <b>A. Well, there's two separate questions.</b></p> <p>12   <b>If you would just rephrase your question.</b></p> <p>13       Q. Well, I mean, forget about the State</p> <p>14   aid. I mean, just the pension costs are not being</p> <p>15   cut significantly under the restructuring</p> <p>16   scenario; correct?</p> <p>17       MR. ALBERTS: Objection.</p> <p>18       THE WITNESS: Well, I don't know what</p> <p>19   your definition of "significantly" is. So if</p> <p>20   you ask me a specific question, I can give</p> <p>21   you a perspective on the pension cost.</p> <p>22   BY MR. SMITH:</p> <p>23       Q. I'll use your definition of</p> <p>24   significantly. Are the pension cost --</p> <p>25       MR. STEWART: You interrupted his answer</p>	<p style="text-align: right;">Page 187</p> <p>1                   <b>MALHOTRA</b></p> <p>2       <b>Based on the assumptions that we have</b></p> <p>3   <b>from Milliman, you look at PFRS, the value of</b></p> <p>4   <b>their COLA is almost 350 to \$400 million. The</b></p> <p>5   <b>value of their freeze is roughly another</b></p> <p>6   <b>\$55 million. So you have roughly \$400 million</b></p> <p>7   <b>right there.</b></p> <p>8       <b>But that's, you know, some of the</b></p> <p>9   <b>context of the cuts -- and I know there's probably</b></p> <p>10   <b>additional details, but that's -- in my mind,</b></p> <p>11   <b>conceptually, the cuts that have taken place in</b></p> <p>12   <b>pension.</b></p> <p>13       <b>Whether you define it as significant or</b></p> <p>14   <b>not, I don't know.</b></p> <p>15       Q. Do you agree that the level of services</p> <p>16   the City provides is a matter for the business</p> <p>17   judgment of the City leaders?</p> <p>18       <b>A. The level of services is with the City</b></p> <p>19   <b>leaders of the new transition board or in the</b></p> <p>20   <b>context of even the amounts available for the City</b></p> <p>21   <b>to spend. So I think you sort of -- it's a</b></p> <p>22   <b>balancing act between the services as well as the</b></p> <p>23   <b>amount of money available to expend.</b></p> <p>24       <b>But that's probably with the mayor and</b></p> <p>25   <b>city council, the emergency manager, the board.</b></p>
<p style="text-align: right;">Page 186</p> <p>1                   <b>MALHOTRA</b></p> <p>2    again. I'd ask you just to wait a second,</p> <p>3    Mr. Smith, and let him finish his answer</p> <p>4    before you ask your next question.</p> <p>5    BY MR. SMITH:</p> <p>6       Q. Did you have anything else to say?</p> <p>7       <b>A. No. Could you just ask me your question</b></p> <p>8   <b>again now, please.</b></p> <p>9       Q. In your -- under your definition of</p> <p>10   "significantly," are -- the pension costs are not</p> <p>11   being cut significantly under the restructuring;</p> <p>12   correct?</p> <p>13       <b>A. I think the pension cuts are the value</b></p> <p>14   <b>of the liability.</b></p> <p>15       <b>So for General Retirement System, just</b></p> <p>16   <b>based on the value of the freeze, that's a</b></p> <p>17   <b>\$95 million cut in the liability. The value of</b></p> <p>18   <b>the COLA that is being eliminated is roughly</b></p> <p>19   <b>467 million, of a cut. The value of the</b></p> <p>20   <b>4-1/2 percent reduction is an estimated</b></p> <p>21   <b>\$125 million. You add the ASF to that, that's</b></p> <p>22   <b>another couple of hundred million dollars.</b></p> <p>23       <b>So all in, we're looking at somewhere</b></p> <p>24   <b>between -- I haven't done the math -- 900 million</b></p> <p>25   <b>to a billion.</b></p>	<p style="text-align: right;">Page 188</p> <p>1                   <b>MALHOTRA</b></p> <p>2    <b>That's potentially where I would think it is with</b></p> <p>3    <b>probably input from others. I don't know.</b></p> <p>4       Q. So your position is that the level of</p> <p>5   services within the City is a matter for the</p> <p>6   business judgment of the City leaders in power at</p> <p>7   the time; correct?</p> <p>8       <b>A. In conjunction with, I would say it's</b></p> <p>9   <b>the supervisory board and what level of funding is</b></p> <p>10   <b>available. So, you know, it's not just saying one</b></p> <p>11   <b>group can only decide all the levels of services</b></p> <p>12   <b>regardless of what financial ability the City has</b></p> <p>13   <b>or does not have from a resources standpoint.</b></p> <p>14       Q. Do you agree that any of the assumptions</p> <p>15   in your model can change over the 10-year and</p> <p>16   40-year periods you forecast?</p> <p>17       <b>A. Can any of the assumptions change? Yes.</b></p> <p>18       Q. Do you agree that the timing of the</p> <p>19   reinvestment expenditures could change from the</p> <p>20   assumptions in your model?</p> <p>21       <b>A. Yes.</b></p> <p>22       MR. SMITH: I'm going to mark as</p> <p>23   Exhibit 1 a copy of this 10-year financial</p> <p>24   projection.</p> <p>25       (Exhibit Malhotra-1 was marked for</p>

Pages 185 to 188



<p style="text-align: right;">Page 189</p> <p>1 MALHOTRA</p> <p>2 identification.)</p> <p>3 MR. ALBERTS: Would you please recite</p> <p>4 the Bates numbers.</p> <p>5 MR. SMITH: It's POA00706519.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. You got it?</p> <p>8 <b>A. Yes, I do.</b></p> <p>9 Q. Okay. On the front of the projections</p> <p>10 that you prepared, there's a disclaimer by Ernst &amp;</p> <p>11 Young; correct?</p> <p>12 <b>A. That is correct.</b></p> <p>13 Q. And you state that "There will usually</p> <p>14 be differences between forecast and actual results</p> <p>15 because events and circumstances frequently do not</p> <p>16 occur as expected and those differences may be</p> <p>17 material."</p> <p>18 Do you agree with that statement?</p> <p>19 <b>A. I do not.</b></p> <p>20 Q. And "E&amp;Y takes no responsibility for the</p> <p>21 achievement of forecasted results."</p> <p>22 Do you agree with that statement?</p> <p>23 <b>A. Yes.</b></p> <p>24 Q. And it says, "Accordingly reliance on</p> <p>25 this report is prohibited by any third party as</p>	<p style="text-align: right;">Page 191</p> <p>1 MALHOTRA</p> <p>2 Q. Okay. And it's the policy of Ernst &amp;</p> <p>3 Young to always put this disclaimer on its</p> <p>4 forecast. Is that fair?</p> <p>5 <b>A. Generally, yes. I mean, it's -- the --</b></p> <p>6 <b>yeah. Generally, yes.</b></p> <p>7 Q. And that's because forecasts don't give</p> <p>8 you information about what actual results will be;</p> <p>9 correct?</p> <p>10 <b>A. That's why it's a forecast.</b></p> <p>11 Q. So that's correct; correct?</p> <p>12 <b>A. A forecast is not an actual; that is</b></p> <p>13 <b>correct.</b></p> <p>14 Q. And there are a number of things that</p> <p>15 can change that can make forecasts deviate</p> <p>16 materially from actual results; correct?</p> <p>17 <b>A. Yeah. "Materially" is depends on sort</b></p> <p>18 <b>of what assumption is changing. But as --</b></p> <p>19 <b>information in the future can change materially as</b></p> <p>20 <b>well.</b></p> <p>21 Q. Okay. And there are a number of factors</p> <p>22 that could change that could cause the forecasts</p> <p>23 you've done for the City of Detroit to change</p> <p>24 materially from the actual results that are</p> <p>25 achieved; correct?</p>
<p style="text-align: right;">Page 190</p> <p>1 MALHOTRA</p> <p>2 the projected financial information contained</p> <p>3 herein is subject to material change and may not</p> <p>4 reflect actual results."</p> <p>5 Do you agree with that statement?</p> <p>6 <b>A. Yes. I have in-house counsel on the</b></p> <p>7 <b>phone. But yes.</b></p> <p>8 Q. And is this type of disclaimer and set</p> <p>9 of statements attached to any forecasts that</p> <p>10 Ernst &amp; Young makes?</p> <p>11 <b>A. We try our best to. Sometimes we miss,</b></p> <p>12 <b>but that's -- we generally -- yes.</b></p> <p>13 Q. And this statement is based on a</p> <p>14 consensus view of experts at Ernst &amp; Young</p> <p>15 regarding forecasts; correct?</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: I do not know the exact</p> <p>18 basis of where the exact statement has come</p> <p>19 from.</p> <p>20 BY MR. SMITH:</p> <p>21 Q. Okay. You always put this statement on</p> <p>22 any forecast that you would create. Is that your</p> <p>23 general practice?</p> <p>24 <b>A. Like I said, we try to, but it's -- at</b></p> <p>25 <b>times we miss.</b></p>	<p style="text-align: right;">Page 192</p> <p>1 MALHOTRA</p> <p>2 <b>A. Yes. If there are -- of course, changes</b></p> <p>3 <b>that are unforeseen that we don't know about that</b></p> <p>4 <b>can have an impact on the forecast, yes.</b></p> <p>5 Q. And that's why you've told third parties</p> <p>6 that they shouldn't rely on forecasted results</p> <p>7 you've prepared for the City of Detroit; correct?</p> <p>8 <b>A. I think that the information is</b></p> <p>9 <b>specifically highlighting what could happen with</b></p> <p>10 <b>any forecast. And so I think for the parties to</b></p> <p>11 <b>look at this, they have to realize what they're</b></p> <p>12 <b>looking at.</b></p> <p>13 Q. Okay. And you caution third parties</p> <p>14 that they should not rely on your forecasts;</p> <p>15 correct?</p> <p>16 <b>A. It says that from a forecast standpoint,</b></p> <p>17 <b>it is subject to change. And so third parties</b></p> <p>18 <b>have to sort of understand what they're looking</b></p> <p>19 <b>at. That's what I would say. And beyond that,</b></p> <p>20 <b>it's probably a legal question which I cannot</b></p> <p>21 <b>answer.</b></p> <p>22 Q. Well, your forecast, you put right on</p> <p>23 the front of it that "Reliance on this report is</p> <p>24 prohibited by any third party"; correct?</p> <p>25 <b>A. That's what it says.</b></p>

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<p style="text-align: right;">Page 193</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. And the reason that reliance on your</p> <p>3 forecast is prohibited is because you recognize</p> <p>4 that circumstances can change and the forecast may</p> <p>5 deviate materially from actual results; correct?</p> <p>6 <b>A. That is what is written here, yes.</b></p> <p>7 Q. And you agree with what's written there;</p> <p>8 correct?</p> <p>9 <b>A. I do.</b></p> <p>10 Q. Have you done any investigation to</p> <p>11 determine if there are any cost-cutting measures</p> <p>12 that could be undertaken that are not reflected in</p> <p>13 the forecast?</p> <p>14 <b>A. From a cost-cutting standpoint -- from a</b></p> <p>15 <b>further cost-cutting standpoint, most of the</b></p> <p>16 <b>initiatives, I believe, are in here in terms of</b></p> <p>17 <b>the outsourcing -- I'm just trying to think if</b></p> <p>18 <b>there are any other initiatives from an</b></p> <p>19 <b>opportunity standpoint. I would have to give that</b></p> <p>20 <b>some more thought on a department-by-department</b></p> <p>21 <b>basis.</b></p> <p>22 Q. You said that the Department of</p> <p>23 Transportation, the subsidy it gets from the</p> <p>24 general fund, is a significant cost driver;</p> <p>25 correct?</p>	<p style="text-align: right;">Page 195</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>the bridge between the plan of adjustment and the</b></p> <p>3 <b>June 2nd financials.</b></p> <p>4 Q. The City recognizes the Department of</p> <p>5 Transportation is charging fees that are below</p> <p>6 market rates; correct?</p> <p>7 <b>A. I wouldn't be able to comment on that</b></p> <p>8 <b>whether they're below market or not.</b></p> <p>9 Q. Okay. You haven't done any</p> <p>10 investigation into that at all?</p> <p>11 <b>A. I have not studied that particular piece</b></p> <p>12 <b>in terms of the level of service compared to the</b></p> <p>13 <b>fees; but I do know that, in the forecast, there</b></p> <p>14 <b>are some increased fees that are forecast.</b></p> <p>15 Q. And you're -- and in the last year or</p> <p>16 two, the City has reduced the subsidy from the</p> <p>17 general fund to the Department of Transportation;</p> <p>18 correct?</p> <p>19 <b>A. Yes, for a short while while the level</b></p> <p>20 <b>of service was down and when the general fund paid</b></p> <p>21 <b>on behalf of the Department of Transportation some</b></p> <p>22 <b>self-insurance claims.</b></p> <p>23 <b>So although ideally, from an accounting</b></p> <p>24 <b>standpoint, the City should have reflected those</b></p> <p>25 <b>self-insurance claims still being paid by the</b></p>
<p style="text-align: right;">Page 194</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. It is. It's -- it has been a big cost</b></p> <p>3 <b>driver for the general fund, historically.</b></p> <p>4 Q. And the City has been attempted to</p> <p>5 implement cost-cutting measures in the Department</p> <p>6 of Transportation; correct?</p> <p>7 <b>A. That is correct.</b></p> <p>8 Q. And the City has also attempting to</p> <p>9 implement revenue-increasing measures in the</p> <p>10 Department of Transportation; correct?</p> <p>11 <b>A. I believe so, yes.</b></p> <p>12 Q. And the City recognizes that further</p> <p>13 cost can be cut from the Department of</p> <p>14 Transportation; correct?</p> <p>15 <b>A. I don't know about that.</b></p> <p>16 Q. Well, they're planning to implement some</p> <p>17 cost-cutting measures. You know that; correct?</p> <p>18 <b>A. Well, as I said earlier, it has been a</b></p> <p>19 <b>big driver of a subsidy. They have been driving</b></p> <p>20 <b>new revenue initiatives. They have cut costs</b></p> <p>21 <b>historically. And -- but that has come at the</b></p> <p>22 <b>level of a larger decline in services.</b></p> <p>23 <b>And, in fact, some of the revenues for</b></p> <p>24 <b>the Department of Transportation are going done</b></p> <p>25 <b>versus up in the near future as is reflective in</b></p>	<p style="text-align: right;">Page 196</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>Department of Transportation and then the general</b></p> <p>3 <b>fund subsidy being higher, I think the way at</b></p> <p>4 <b>least the accounting was shown is that the general</b></p> <p>5 <b>fund was paying the self-insurance claims</b></p> <p>6 <b>directly. So it artificially lowered the subsidy</b></p> <p>7 <b>when that's not the case in reality.</b></p> <p>8 <b>That being said, the subsidy was lower</b></p> <p>9 <b>than historical levels because of reduced service.</b></p> <p>10 Q. Okay. But if you take all the payments</p> <p>11 that the general fund made to the Department of</p> <p>12 Transportation, have they been reduced?</p> <p>13 <b>A. Compared to what time frame?</b></p> <p>14 Q. Compared to the past. I mean, I'm</p> <p>15 trying to figure out -- you were just talking</p> <p>16 about two separate payments, the subsidy and the</p> <p>17 insurance charge. And I'm just wondering if you</p> <p>18 take the payments together, were the general fund</p> <p>19 payments to the Department of Transportation, have</p> <p>20 they -- were they lower or not?</p> <p>21 MR. STEWART: Objection.</p> <p>22 Just read the question, please.</p> <p>23 (Thereupon, the requested portion</p> <p>24 was read back by the reporter as</p> <p>25 above recorded.)</p>

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<p style="text-align: right;">Page 197</p> <p>1 MALHOTRA</p> <p>2 THE WITNESS: I believe the Department</p> <p>3 of Transportation has had a lower subsidy in</p> <p>4 the last year or two compared to that same</p> <p>5 time frame before that. I can look through</p> <p>6 this and get a more precise answer.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. The -- your forecast, though, assumes</p> <p>9 that the subsidy to the Department of</p> <p>10 Transportation will increase; correct?</p> <p>11 <b>A. Because of the lower revenue based on</b></p> <p>12 <b>how the new revenue sharing agreement is set up</b></p> <p>13 <b>for the Department of Transportation.</b></p> <p>14 Q. What's the new revenue sharing</p> <p>15 agreement?</p> <p>16 <b>A. So our -- the State has a new way of</b></p> <p>17 <b>dispersing transportation-related grants to all of</b></p> <p>18 <b>the various transportation departments throughout</b></p> <p>19 <b>the state; and that, in fact, caused a reduction</b></p> <p>20 <b>in the Department of Transportation's annual</b></p> <p>21 <b>revenue by almost 6 to 6-1/2 million dollars</b></p> <p>22 <b>annually. And that was a significant impact to</b></p> <p>23 <b>the forecast. In addition, we have some</b></p> <p>24 <b>additional subsidiaries required for the People</b></p> <p>25 <b>Mover.</b></p>	<p style="text-align: right;">Page 199</p> <p>1 MALHOTRA</p> <p>2 expenditures than it otherwise would have. Is</p> <p>3 that fair?</p> <p>4 <b>A. Yes. We have a change based on the</b></p> <p>5 <b>updated information we have, yes.</b></p> <p>6 Q. Okay. Is there any portion of the</p> <p>7 increased subsidy to the Department of</p> <p>8 Transportation that's not due to this legislation</p> <p>9 from the State?</p> <p>10 <b>A. I believe it is a small portion that's</b></p> <p>11 <b>related to an increased subsidy to the People</b></p> <p>12 <b>Mover. But I would say the biggest change is the</b></p> <p>13 <b>one change driven by the State.</b></p> <p>14 Q. And I'm going to hand you a copy of</p> <p>15 Exhibit 2, which is a copy of the disclosure</p> <p>16 statement.</p> <p>17 (Exhibit Malhotra-2 was marked for</p> <p>18 identification.)</p> <p>19 BY MR. SMITH:</p> <p>20 Q. If you could turn to Page 82, please.</p> <p>21 MR. STEWART: This is absolute 82, not</p> <p>22 82 of '197; right?</p> <p>23 MR. SMITH: Yeah.</p> <p>24 BY MR. SMITH:</p> <p>25 Q. At the bottom there's a section called</p>
<p style="text-align: right;">Page 198</p> <p>1 MALHOTRA</p> <p>2 <b>But to offset some of those increased</b></p> <p>3 <b>costs, the City has incorporated some</b></p> <p>4 <b>opportunities in order to not fully have to bear</b></p> <p>5 <b>the cost of that decreased revenue from the State</b></p> <p>6 <b>and some increased funding for the People Mover.</b></p> <p>7 Q. Okay. So the State -- during the</p> <p>8 pendency of the bankruptcy, the State has reduced</p> <p>9 funding to the Department of Transportation; is</p> <p>10 that correct?</p> <p>11 <b>A. There is -- it's not just for the</b></p> <p>12 <b>Detroit Department of Transportation. There is,</b></p> <p>13 <b>based on this new legislation -- which is, I think</b></p> <p>14 <b>State Operating Act 51 -- an assumption of a</b></p> <p>15 <b>6-plus-million-dollar decline annually for the</b></p> <p>16 <b>Department of Transportation.</b></p> <p>17 <b>We have only incorporated that impact</b></p> <p>18 <b>for the first ten years and have assumed that the</b></p> <p>19 <b>Department of Transportation has to find other</b></p> <p>20 <b>ways to mitigate that impact beyond the first ten</b></p> <p>21 <b>years.</b></p> <p>22 Q. Okay. If I follow you, the State cut</p> <p>23 funding for the Department of Transportation and</p> <p>24 other departments around the state, and that</p> <p>25 required the general fund to make greater</p>	<p style="text-align: right;">Page 200</p> <p>1 MALHOTRA</p> <p>2 "Failure to Achieve Projected Financial</p> <p>3 Performance."</p> <p>4 Do you see that?</p> <p>5 <b>A. Yes.</b></p> <p>6 Q. Okay. And the disclosure statement</p> <p>7 says, "The projections are dependent upon the</p> <p>8 successful implementation of the City's budget and</p> <p>9 the reliability of other estimates and assumptions</p> <p>10 accompanying the projections."</p> <p>11 Do you agree with that statement as it</p> <p>12 relates to your projections you've done for the</p> <p>13 City of Detroit?</p> <p>14 <b>A. Yes.</b></p> <p>15 Q. And when you say implementation of the</p> <p>16 City's -- well, you didn't put this together,</p> <p>17 but -- why don't I ask you this: Have you used</p> <p>18 information from the City's budget in your</p> <p>19 forecast?</p> <p>20 <b>A. Yes.</b></p> <p>21 Q. Okay. And then if you turn to Page 83</p> <p>22 at the top, it says, "These estimates and</p> <p>23 assumptions may not be realized and are inherently</p> <p>24 subject to significant economic uncertainties and</p> <p>25 contingencies, many of which are beyond the City's</p>

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<p style="text-align: right;">Page 201</p> <p>1 MALHOTRA</p> <p>2 control."</p> <p>3 Do you agree with that statement as it</p> <p>4 pertains to your projections you've done?</p> <p>5 <b>A. Yes.</b></p> <p>6 Q. And then if you look at the next</p> <p>7 section, Section K, the second sentence:</p> <p>8 "Unforeseen events and circumstances may occur</p> <p>9 affecting the City's future financial performance,</p> <p>10 resulting in those assumptions proving inaccurate</p> <p>11 and the City being unable to fulfill its</p> <p>12 obligations under the plan. No guarantee can be</p> <p>13 made as to the City's future financial performance</p> <p>14 due to a variety of unforeseeable circumstances</p> <p>15 that may affect such a performance."</p> <p>16 Do you agree with that statement --</p> <p>17 those statements as they relate to your</p> <p>18 projections?</p> <p>19 <b>A. Yes, I do.</b></p> <p>20 Q. In your analysis, in your projections</p> <p>21 that you do, is there any time-series analysis</p> <p>22 that you do or not?</p> <p>23 <b>A. For which particular line items?</b></p> <p>24 Q. For any of them.</p> <p>25 <b>A. Not generally.</b></p>	<p style="text-align: right;">Page 203</p> <p>1 MALHOTRA</p> <p>2 proposal like Detroit's results in increased</p> <p>3 population; correct?</p> <p>4 <b>A. Well, what particular part of the</b></p> <p>5 <b>proposal are you referring to of Detroit's</b></p> <p>6 <b>proposal?</b></p> <p>7 Q. Any of it. I mean, there's no study</p> <p>8 showing that any part of the restructuring and</p> <p>9 reinvestment proposal Detroit is making is</p> <p>10 associated with an increase in population;</p> <p>11 correct?</p> <p>12 <b>A. I do not know about the -- direct</b></p> <p>13 <b>linkage that you're talking about but -- of a</b></p> <p>14 <b>scientific study. I don't know what a scientific</b></p> <p>15 <b>study is out there that would address this</b></p> <p>16 <b>particular issue.</b></p> <p>17 Q. Okay. You're not aware of any such</p> <p>18 study you can cite sitting here today; correct?</p> <p>19 <b>A. I'm not aware of a scientific study of</b></p> <p>20 <b>such sort that I can cite.</b></p> <p>21 MR. STEWART: It's about 1:30. Whenever</p> <p>22 you want to break for lunch.</p> <p>23 MR. SMITH: Yeah, we can break.</p> <p>24 MR. STEWART: If you just finish</p> <p>25 whatever your line of questions is.</p>
<p style="text-align: right;">Page 202</p> <p>1 MALHOTRA</p> <p>2 Q. You agree that there's no scientific</p> <p>3 literature or data quantifying any increase in</p> <p>4 municipal revenue as a result of a restructuring</p> <p>5 or reinvestment effort like Detroit's; correct?</p> <p>6 MR. STEWART: Objection.</p> <p>7 THE WITNESS: I do not know if there is</p> <p>8 or is not.</p> <p>9 BY MR. SMITH:</p> <p>10 Q. You're not aware of anything you can</p> <p>11 cite, sitting here today; correct?</p> <p>12 <b>A. I can't cite -- make a specific citation</b></p> <p>13 <b>on that, no.</b></p> <p>14 Q. You agree that there's no scientific</p> <p>15 literature data demonstrating an increase in</p> <p>16 population associated with a reconstruction or</p> <p>17 reinvestment proposal such as that Detroit is</p> <p>18 making here?</p> <p>19 <b>A. I don't know what you mean by</b></p> <p>20 <b>"scientific." It's the -- it's the assumption of</b></p> <p>21 <b>a safer and cleaner city, being able to hold on to</b></p> <p>22 <b>its population or increase it over the long-term</b></p> <p>23 <b>compared to where we are today.</b></p> <p>24 Q. But there's no study of any kind or data</p> <p>25 showing that a reconstruction or reinvestment</p>	<p style="text-align: right;">Page 204</p> <p>1 MALHOTRA</p> <p>2 MR. SMITH: No, we can take lunch now.</p> <p>3 THE VIDEOGRAPHER: Going off the record</p> <p>4 at 1:29. This is the end of Tape No. 3.</p> <p>5 (Luncheon recess from 1:29 p.m. to</p> <p>6 2:03 p.m.)</p> <p>7 THE VIDEOGRAPHER: We are back on the</p> <p>8 record at 2:03. This is the beginning of</p> <p>9 Tape No. 4.</p> <p>10 BY MR. SMITH:</p> <p>11 Q. Do you agree that Detroit's Chapter 9</p> <p>12 plan will put them in a better fiscal position</p> <p>13 than many other comparable cities?</p> <p>14 <b>A. I don't know about comparable cities. I</b></p> <p>15 <b>think Detroit will be in a better position than it</b></p> <p>16 <b>was before it entered into Chapter 9.</b></p> <p>17 Q. Will Detroit be in a better position</p> <p>18 among other cities once it emerges from Chapter 9</p> <p>19 under the plan?</p> <p>20 <b>A. Which other cities are you referring to?</b></p> <p>21 <b>Any specific ones?</b></p> <p>22 Q. Well, cities of comparable size.</p> <p>23 <b>A. I haven't done that analysis.</b></p> <p>24 Q. There are several enterprise funds that</p> <p>25 are associated with the City. You're aware of</p>

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<p style="text-align: right;">Page 205</p> <p>1 MALHOTRA</p> <p>2 that; correct?</p> <p>3 <b>A. That is correct.</b></p> <p>4 Q. And the general fund makes payments to</p> <p>5 those enterprise funds; is that correct?</p> <p>6 <b>A. No. I --</b></p> <p>7 Q. Well, we were talking about the</p> <p>8 Department of Transportation subsidy.</p> <p>9 <b>A. Yes, the Department of Transportation,</b></p> <p>10 <b>yes.</b></p> <p>11 Q. Are there any other enterprise funds</p> <p>12 that the general fund subsidizes?</p> <p>13 <b>A. I think the airport, but that's about it</b></p> <p>14 <b>that the general fund subsidizes.</b></p> <p>15 Q. Are there any enterprise funds that pay</p> <p>16 the general fund money on balance?</p> <p>17 <b>A. Yes, for central service fees, Detroit</b></p> <p>18 <b>Water and Sewer Department, I believe the street</b></p> <p>19 <b>fund. But I would think -- the parking department</b></p> <p>20 <b>for other admin-type services, the general fund</b></p> <p>21 <b>would provide to these other enterprise funds.</b></p> <p>22 Q. Does your forecast assume that payments</p> <p>23 to the general fund from enterprise funds will</p> <p>24 increase or decrease?</p> <p>25 <b>A. They are kept consistent with where the</b></p>	<p style="text-align: right;">Page 207</p> <p>1 MALHOTRA</p> <p>2 <b>the new changes with the state revenue being</b></p> <p>3 <b>declined. So it's -- we have done an analysis.</b></p> <p>4 Q. And you understand that there's been a</p> <p>5 study the City had done that shows that the fees</p> <p>6 charged by the Department of Transportation can be</p> <p>7 increased?</p> <p>8 <b>A. I don't recall the study specifically,</b></p> <p>9 <b>but I heard about this. And I believe there are</b></p> <p>10 <b>increased fees in their operating initiatives and</b></p> <p>11 <b>their restructuring and reinvestment initiatives.</b></p> <p>12 Q. You know that the City transferred</p> <p>13 16,000 properties to the Detroit Land Bank</p> <p>14 recently; correct?</p> <p>15 <b>A. I am not close enough. I do not know</b></p> <p>16 <b>specifically.</b></p> <p>17 Q. Okay. I mean, there's nothing in your</p> <p>18 forecast that takes into account any potential</p> <p>19 reimbursement from the Detroit Land Bank for</p> <p>20 properties that the City may give it, is there?</p> <p>21 <b>A. Not that I am aware of.</b></p> <p>22 Q. As far as you're aware, the City didn't</p> <p>23 get anything in return for the 16,000 properties</p> <p>24 it transferred to the land bank; correct?</p> <p>25 <b>A. I'm not sure about the 16,000 properties</b></p>
<p style="text-align: right;">Page 206</p> <p>1 MALHOTRA</p> <p>2 rates are; and if there are any increased</p> <p>3 reimbursements, it would be -- it's generally a</p> <p>4 pass-through. So if the costs go up, the</p> <p>5 reimbursements will go up.</p> <p>6 Q. You haven't done any investigation to</p> <p>7 determine what measures the enterprise funds can</p> <p>8 take to either increase payments to the general</p> <p>9 fund or decrease payments out of the general fund?</p> <p>10 <b>A. Because enterprise funds are supposed to</b></p> <p>11 <b>be net neutral. So we've already talked about the</b></p> <p>12 <b>Department of Transportation, but we can talk</b></p> <p>13 <b>about that again more specifically. Because that</b></p> <p>14 <b>is the department that has a subsidy that's</b></p> <p>15 <b>compared to the other enterprise funds.</b></p> <p>16 Q. But you haven't done any analysis to</p> <p>17 ascertain whether the Department of Transportation</p> <p>18 can cut costs more or increase revenues so that</p> <p>19 the subsidy from the general fund can be</p> <p>20 decreased; correct?</p> <p>21 <b>A. No, that's not correct. We've looked at</b></p> <p>22 <b>the -- spent time with the Department of</b></p> <p>23 <b>Transportation to understand what cost components</b></p> <p>24 <b>there are, what revenue estimates they have.</b></p> <p>25 <b>That's one of the ways that we understood about</b></p>	<p style="text-align: right;">Page 208</p> <p>1 MALHOTRA</p> <p>2 <b>being transferred to the land bank, so I cannot</b></p> <p>3 <b>speculate on what reimbursement the City did or</b></p> <p>4 <b>did not get.</b></p> <p>5 Q. Do you have any understanding exactly of</p> <p>6 what financial relationship there is between the</p> <p>7 general fund and the land bank?</p> <p>8 <b>A. No, I have not -- that -- I'm not close</b></p> <p>9 <b>enough to that.</b></p> <p>10 Q. You know that the City of Detroit</p> <p>11 collects only about half of the property taxes</p> <p>12 that are owed; correct?</p> <p>13 <b>A. No, that's not correct.</b></p> <p>14 Q. What percent is your understanding in</p> <p>15 value that the -- of property taxes the City</p> <p>16 collects?</p> <p>17 <b>A. I have to look at the capital. But it's</b></p> <p>18 <b>a higher percentage when you take into</b></p> <p>19 <b>consideration the delinquent taxes that the City</b></p> <p>20 <b>receives from Wayne County at the end of every</b></p> <p>21 <b>fiscal year. There's a settling-up concept that</b></p> <p>22 <b>goes, but I believe the amount is higher than the</b></p> <p>23 <b>50 percent that you just stated.</b></p> <p>24 Q. Do you know what percent of the income</p> <p>25 tax is collected?</p>

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<p style="text-align: right;">Page 209</p> <p>1 MALHOTRA</p> <p>2 <b>A. I would have to go back and look. But</b></p> <p>3 <b>on the commercial and industrial, on the corporate</b></p> <p>4 <b>side it would be a high number. But I do not know</b></p> <p>5 <b>specifically of the exact percentage collection.</b></p> <p>6 Q. You don't know what the percent</p> <p>7 collection is for the individual income tax;</p> <p>8 correct?</p> <p>9 <b>A. Well, even the individual income tax has</b></p> <p>10 <b>different components between residents working in</b></p> <p>11 <b>the city, residents working out of the city and</b></p> <p>12 <b>nonresidents. And I do not know off the top of my</b></p> <p>13 <b>head what the collection rate is for each one of</b></p> <p>14 <b>those components.</b></p> <p>15 Q. Do you know how many companies actually</p> <p>16 pay the corporate tax?</p> <p>17 <b>A. I do not. It's -- I do not.</b></p> <p>18 Q. Do you know if there are -- do you have</p> <p>19 any information about exceptions or reductions in</p> <p>20 taxes available to corporations or other entities</p> <p>21 within the City?</p> <p>22 <b>A. There is the -- the renaissance zone,</b></p> <p>23 <b>but that's probably more in relation to property</b></p> <p>24 <b>taxes. In terms of corporate income taxes, I'm</b></p> <p>25 <b>not aware of any specific incentives that would be</b></p>	<p style="text-align: right;">Page 211</p> <p>1 MALHOTRA</p> <p>2 the City will also have billions of dollars in</p> <p>3 expenditures; correct?</p> <p>4 <b>A. That would be consistent with what the</b></p> <p>5 <b>forecasts are, yes.</b></p> <p>6 Q. Do you have any understanding about what</p> <p>7 the amount in terms of dollars is of the reduction</p> <p>8 in the COPs claim under the plan?</p> <p>9 MR. STEWART: Objection -- pardon me.</p> <p>10 Objection.</p> <p>11 THE WITNESS: Well, as a part of the</p> <p>12 plan, the COPs claim is -- the claim is</p> <p>13 roughly a billion four forty, and the</p> <p>14 estimated recovery based on the assumptions</p> <p>15 in the plan are roughly 10 percent.</p> <p>16 BY MR. SMITH:</p> <p>17 Q. What are the most -- what are the key</p> <p>18 assumptions of your forecast being modeled?</p> <p>19 <b>A. They are -- they're -- we can walk</b></p> <p>20 <b>through each one of the line items in the key</b></p> <p>21 <b>assumptions there.</b></p> <p>22 Q. Well, how about I ask you this: Are the</p> <p>23 key assumptions of your forecasting model</p> <p>24 reflected in your expert report?</p> <p>25 And I'll hand you a copy of it in a</p>
<p style="text-align: right;">Page 210</p> <p>1 MALHOTRA</p> <p>2 <b>provided by the City.</b></p> <p>3 Q. What is the treatment of property taxes</p> <p>4 within the renaissance zone?</p> <p>5 <b>A. I believe that it is more in the context</b></p> <p>6 <b>of properties that are in the renaissance zone</b></p> <p>7 <b>will have a slightly different taxable value that</b></p> <p>8 <b>is associated with it versus the properties that</b></p> <p>9 <b>are not in the renaissance zone. And that,</b></p> <p>10 <b>however, the properties in the renaissance zone</b></p> <p>11 <b>make up a small component of the overall total</b></p> <p>12 <b>properties and the total property taxes, but I</b></p> <p>13 <b>would have to look through the details to kind of</b></p> <p>14 <b>explain the exact structure.</b></p> <p>15 Q. The property tax in the renaissance</p> <p>16 zone, is it lower?</p> <p>17 <b>A. Well, I don't know if it's the rate or</b></p> <p>18 <b>the assessed values. I would have to go back and</b></p> <p>19 <b>check how the mix is built up.</b></p> <p>20 Q. Do you agree that under your forecast,</p> <p>21 over the course of the next 10 years, the City</p> <p>22 will bring in billions of dollars of revenue?</p> <p>23 <b>A. Over the next ten years, the City's</b></p> <p>24 <b>projections are about \$11 billion in revenue.</b></p> <p>25 Q. Over the course of the next ten years,</p>	<p style="text-align: right;">Page 212</p> <p>1 MALHOTRA</p> <p>2 second, which I will mark as Exhibit 3.</p> <p>3 (Exhibit Malhotra-3 was marked for</p> <p>4 identification.)</p> <p>5 THE WITNESS: Could you please repeat</p> <p>6 the question.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. I could just ask the question again.</p> <p>9 Are the key assumptions in your model</p> <p>10 reflected in your expert report, or are there some</p> <p>11 key assumptions that are not in the report?</p> <p>12 <b>A. If I may, I would say the majority of</b></p> <p>13 <b>the assumptions are in the expert report or have</b></p> <p>14 <b>been mentioned in the assumptions of the model</b></p> <p>15 <b>that are exhibits or -- to the expert report.</b></p> <p>16 <b>So . . .</b></p> <p>17 Q. Does your expert report contain a</p> <p>18 complete and accurate account of your expert</p> <p>19 opinions in this case?</p> <p>20 <b>A. Yes.</b></p> <p>21 Q. Do you anticipate doing any further work</p> <p>22 before the confirmation hearing?</p> <p>23 <b>A. Further work on what?</b></p> <p>24 Q. On the forecasts or developing any other</p> <p>25 opinions?</p>

<p style="text-align: right;">Page 213</p> <p>1 MALHOTRA</p> <p>2 <b>A. If we reach more settlements, we will</b></p> <p>3 <b>update the forecast as those settlements come</b></p> <p>4 <b>along.</b></p> <p>5 Q. What settlements are in process that</p> <p>6 you're talking about?</p> <p>7 MR. STEWART: Before you answer,</p> <p>8 Mr. Malhotra, I just simply caution you to</p> <p>9 remember that you're not permitted by the</p> <p>10 judge's order to disclose anything that's</p> <p>11 been going on in mediations. Subject to</p> <p>12 that, please answer the question.</p> <p>13 THE WITNESS: All right. Thank you.</p> <p>14 We're working on the Detroit Police</p> <p>15 Officers Association and with the Detroit</p> <p>16 Fire Fighters Association to hopefully wrap</p> <p>17 up those negotiations.</p> <p>18 BY MR. SMITH:</p> <p>19 Q. And what are specifically the issues</p> <p>20 that you're trying to wrap up there?</p> <p>21 <b>A. That's --</b></p> <p>22 MR. STEWART: Once again, please answer</p> <p>23 with that same admonition about mediation.</p> <p>24 THE WITNESS: That's subject to</p> <p>25 mediation.</p>	<p style="text-align: right;">Page 215</p> <p>1 MALHOTRA</p> <p>2 you say that your projected revenues and</p> <p>3 expenditures are reasonable forecasts.</p> <p>4 Do you see that?</p> <p>5 <b>A. Yes.</b></p> <p>6 Q. You'd acknowledge that other independent</p> <p>7 experts could come up with reasonable forecasts</p> <p>8 that differ from your forecast; correct?</p> <p>9 <b>A. I don't know what other experts would</b></p> <p>10 <b>come up with. It's up to them.</b></p> <p>11 Q. I know. But my only question is, there</p> <p>12 could be reasonable forecasts of the general</p> <p>13 fund's revenues and expenditures that are</p> <p>14 different from the forecasts you put together;</p> <p>15 correct?</p> <p>16 <b>A. I don't know about that. I feel that</b></p> <p>17 <b>these are reasonable forecasts, and I can't talk</b></p> <p>18 <b>to what other forecasts would be reasonable or not</b></p> <p>19 <b>reasonable that are not generally the forecasts</b></p> <p>20 <b>that I have in front of me.</b></p> <p>21 Q. You're not taking the position that your</p> <p>22 forecasts are the only reasonable forecasts of</p> <p>23 general fund revenues and expenditures that could</p> <p>24 be made; correct?</p> <p>25 <b>A. I am taking the position that based on</b></p>
<p style="text-align: right;">Page 214</p> <p>1 MALHOTRA</p> <p>2 BY MR. SMITH:</p> <p>3 Q. Okay. Is there anything that's not</p> <p>4 subject to mediation that you could talk about</p> <p>5 relating to settlements in the works or not? Or</p> <p>6 is it all part of mediations?</p> <p>7 <b>A. It's generally the discussions are part</b></p> <p>8 <b>of mediations.</b></p> <p>9 Q. Okay. In your expert report you</p> <p>10 mention -- on Page 1 you say you've forecasted</p> <p>11 revenues and expenses for the City's general fund;</p> <p>12 correct?</p> <p>13 <b>A. That is correct.</b></p> <p>14 Q. You haven't attempted to forecast</p> <p>15 revenues and expenses for the entire city;</p> <p>16 correct?</p> <p>17 <b>A. That is correct.</b></p> <p>18 Q. And if you look at -- why did you</p> <p>19 perform a 40-year forecast?</p> <p>20 <b>A. It was to get a longer-term view of the</b></p> <p>21 <b>liabilities that the City was signing up for in</b></p> <p>22 <b>terms of the various settlements to ascertain and</b></p> <p>23 <b>understand the City's ability to meet the</b></p> <p>24 <b>obligations that it was signing up to.</b></p> <p>25 Q. On Page 2 of your report in the middle,</p>	<p style="text-align: right;">Page 216</p> <p>1 MALHOTRA</p> <p>2 <b>the assumptions we have in here, these are the</b></p> <p>3 <b>forecasts that I -- I seem or deem are reasonable.</b></p> <p>4 <b>So I can't talk to what other forecasts may or may</b></p> <p>5 <b>not be reasonable unless I understand assumptions</b></p> <p>6 <b>and so on and so forth.</b></p> <p>7 Q. My only question is, is your forecast</p> <p>8 the only reasonable forecast that's possible of</p> <p>9 the general fund revenues and expenditures?</p> <p>10 <b>A. I don't know. I can talk to these</b></p> <p>11 <b>forecasts being reasonable. I don't know whether</b></p> <p>12 <b>other forecasts are reasonable or not.</b></p> <p>13 Q. Over on Page 4 of your report, you</p> <p>14 identify some of the experts that you're relying</p> <p>15 on; correct? Such as Mr. Cline and Ms. Sallee.</p> <p>16 <b>A. That's correct.</b></p> <p>17 Q. Page 7 of your report at the bottom of</p> <p>18 the page, you talk about the assumptions, some of</p> <p>19 the assumptions that you made. Do you see that?</p> <p>20 There's a section called "Assumptions."</p> <p>21 <b>A. That's correct.</b></p> <p>22 Q. And it would be fair to say that your</p> <p>23 forecasts are based on a series of assumptions;</p> <p>24 correct?</p> <p>25 <b>A. Yes.</b></p>

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<p style="text-align: right;">Page 217</p> <p>1 <b>MALHOTRA</b></p> <p>2 Q. And among the assumptions you rely on</p> <p>3 are the analyses provided to you by Mr. Cline and</p> <p>4 Ms. Sallee regarding the City's tax revenues;</p> <p>5 correct?</p> <p>6 <b>A. That is correct, after I've had</b></p> <p>7 <b>discussions with them and conversations and looked</b></p> <p>8 <b>at what they've done and their sources they've</b></p> <p>9 <b>used, yes.</b></p> <p>10 Q. And then you mention that you have --</p> <p>11 over on Page 8, you based your forecasts and sales</p> <p>12 and charges for services on assumptions regarding</p> <p>13 historical trends; correct?</p> <p>14 MR. STEWART: Where on the page are you?</p> <p>15 MR. SMITH: 8, Paragraph B. We're still</p> <p>16 in the assumptions section.</p> <p>17 MR. STEWART: Got it. Yeah. Thank you.</p> <p>18 THE WITNESS: Yeah. It says it's based</p> <p>19 on historical trends. It's just</p> <p>20 extrapolations based on historical trends.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. So your forecasts are also based on a</p> <p>23 series of extrapolations from historical trends;</p> <p>24 correct?</p> <p>25 <b>A. That is correct. After they're adjusted</b></p>	<p style="text-align: right;">Page 219</p> <p>1 <b>MALHOTRA</b></p> <p>2 historical trends in your report, you typically</p> <p>3 looked at three or four years of historical data;</p> <p>4 is that correct?</p> <p>5 <b>A. Yes, that is correct.</b></p> <p>6 Q. And then did you use a mathematical</p> <p>7 formula to identify the trend? Or how did you</p> <p>8 identify a trend that you would extrapolate?</p> <p>9 <b>A. It was based on discussions, looking</b></p> <p>10 <b>through the financial -- detailed financial</b></p> <p>11 <b>records that the City had to ascertain if there</b></p> <p>12 <b>were one-time items or not.</b></p> <p>13 Q. You didn't use mathematical techniques</p> <p>14 to identify trends in the historical data;</p> <p>15 correct?</p> <p>16 <b>A. One-time blips -- there's not a formula</b></p> <p>17 <b>that you can run to identify a one-time, which is</b></p> <p>18 <b>a part of sort of what I was explaining earlier</b></p> <p>19 <b>this morning about what all financial advisers</b></p> <p>20 <b>will do, is to not run stretchy formulas to</b></p> <p>21 <b>identify whether something is an anomaly or not or</b></p> <p>22 <b>theoretical formulas. It's sort of understand</b></p> <p>23 <b>what the trends are based on discussions and, you</b></p> <p>24 <b>know, the financial records we have available.</b></p> <p>25 Q. You could use -- you could use</p>
<p style="text-align: right;">Page 218</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>for things that we know that have happened or</b></p> <p>3 <b>changed, that is correct.</b></p> <p>4 Q. And you adjusted your extrapolations</p> <p>5 based on information that you received from the</p> <p>6 City; correct?</p> <p>7 <b>A. That is -- that is correct, based on</b></p> <p>8 <b>known information that we had from the City or any</b></p> <p>9 <b>other source; yes.</b></p> <p>10 Q. And so you would have discussion with</p> <p>11 the department managers at the City, and then you</p> <p>12 would change the numbers in your extrapolations to</p> <p>13 reflect what the people at the City departments</p> <p>14 were telling you; is that fair?</p> <p>15 <b>A. It's a little more complicated, because</b></p> <p>16 <b>what you do is you look at the last three to four</b></p> <p>17 <b>years of every line item in the departments, and</b></p> <p>18 <b>you basically ascertain what is normalized versus</b></p> <p>19 <b>if there's anomalies in the actual historical</b></p> <p>20 <b>results. And then you used a normalized</b></p> <p>21 <b>extrapolation. Then you also have discussions</b></p> <p>22 <b>with the City and the other professionals involved</b></p> <p>23 <b>about changes that are impacting that normalized</b></p> <p>24 <b>trend that's been extrapolated.</b></p> <p>25 Q. So when you say that you relied on</p>	<p style="text-align: right;">Page 220</p> <p>1 <b>MALHOTRA</b></p> <p>2 regression analysis or some other analysis to</p> <p>3 identify trends in historical data; correct?</p> <p>4 <b>A. Those are -- regression analyses would</b></p> <p>5 <b>be used for much larger data sets. When you are</b></p> <p>6 <b>looking at an individual, we actually did a far</b></p> <p>7 <b>more detailed analysis than just using a broad</b></p> <p>8 <b>regression by looking at detailed line items by</b></p> <p>9 <b>department to try and analyze what of these</b></p> <p>10 <b>expenses could be deemed one time versus normal</b></p> <p>11 <b>trends.</b></p> <p>12 Q. So when you say you looked at historical</p> <p>13 trends, there wasn't any mathematical analysis</p> <p>14 involved. You just have people look at the</p> <p>15 historical data and then identify a number that</p> <p>16 you assumed for your calculations?</p> <p>17 <b>A. No.</b></p> <p>18 Q. What did you do with the historical data</p> <p>19 to identify -- I'm trying to figure out what you</p> <p>20 mean by "historical" -- how did you derive the</p> <p>21 historical trends that are discussed in your</p> <p>22 report?</p> <p>23 <b>A. I'd be happy to give you an example. We</b></p> <p>24 <b>go through a particular department. You look at</b></p> <p>25 <b>what the average headcount was. So use an</b></p>

Pages 217 to 220



1 **MALHOTRA**  
 2 average. You look at what the average salaries  
 3 were. You look at during those years, if there is  
 4 an anomaly, there is a significant increase or  
 5 decrease, you want to talk to management at the  
 6 City to figure out why there was an increase or a  
 7 decrease compared to an historical average trend,  
 8 again, an average.

9 Based on that, then you basically have  
 10 discussions about if you were to use the average  
 11 and then have discussions about what are some of  
 12 the initiatives or changes that are taking place  
 13 within the department that will actually impact  
 14 that line item.

15 So it's a much more detailed exercise.

16 Q. So if I understand, when you're -- in  
 17 order to come up with the historical trends, you  
 18 would typically look at three or four years of  
 19 data; correct?

20 A. We use -- yes, about four years of data,  
 21 that is correct.

22 Q. And then you would calculate an average  
 23 based on that simple arithmetic average based on  
 24 that data?

25 A. We would use a simple mathematic average

1 **MALHOTRA**  
 2 as well as pay probably more attention to the last  
 3 one or two years, which was most relevant versus  
 4 just looking at only a simple average of four or  
 5 five years.

6 Q. Would you use some sort of weighted  
 7 average in calculating the trends or not?

8 A. The -- it would be not a weighted  
 9 average. It would be, in terms of historical  
 10 trends, more depictive of the run rate of the last  
 11 year versus a weighted average. But you would  
 12 look at these three or four different data points  
 13 at the same time to ascertain what the  
 14 implications were from the forecast data.

15 Q. And you may go with the average value or  
 16 some other value based on conversations with  
 17 people at the City?

18 A. That is correct.

19 Q. Okay. So the conversations with people  
 20 at the City dictated the ultimate value that you  
 21 would use in your analyses when you're identifying  
 22 these historical trends; is that fair?

23 A. I don't know about dictated versus not.  
 24 But in terms of using the financial advisory  
 25 experience, we have about -- coming up with what

1 **MALHOTRA**  
 2 some of the historical trends would show, having  
 3 discussions with the City and the other  
 4 professionals at the City to try and ascertain  
 5 what the normalized level was. But at the end of  
 6 the day, that was the process we went through.

7 Q. Do you know -- can you identify for me,  
 8 in 8C you talk about forecasting operating  
 9 revenues, including parking, court fines; grant  
 10 revenue; license permits and inspection charges;  
 11 and revenue from the use of assets based upon  
 12 recent trends as adjusted to account for recent or  
 13 expected events.

14 Are you able to tell me what adjustments  
 15 were made to those numbers?

16 A. Yes. We made sure that the revenue was,  
 17 from the grant standpoint was adjusted for the  
 18 expiration of the public safety grants, which was  
 19 the fire and SAFER grants in the years -- if I go  
 20 back here, I'll be able to tell -- fiscal year '16  
 21 and '17, as well as the expiration of some small  
 22 cops grants.

23 When I meant cops, I mean the police  
 24 officers grants. In the years '15 and '16, which  
 25 were small, there was also the transition of the

1 **MALHOTRA**  
 2 health and wellness department in which it has  
 3 been transitioned out of the city, which is why  
 4 the grant-related revenues and the grant-related  
 5 expenses fall simultaneously to reflect that.

6 Q. On Page 9 you mention, at the bottom,  
 7 175 million for the exit financing.

8 Do you see that?

9 A. Yes, I do.

10 Q. Was that a number that Mr. Buckfire gave  
 11 you?

12 A. I think it was from Miller Buckfire that  
 13 we got the size of the exit facility, which was  
 14 120 plus 180 million, less fees.

15 Q. At Page 10 you mention a 10 percent wage  
 16 reduction. Where did that number come from?

17 A. So that reflects that in fiscal year  
 18 '14, the salaries already incorporate a 10 percent  
 19 wage reduction that was imposed on all of the  
 20 police or public safety and the ongoing 10 percent  
 21 imposition of wage reductions on nonpublic safety.  
 22 So fiscal year '14 reflected that starting point.

23 Q. And then you assume that there will be a  
 24 reversal of headcount reductions beginning in  
 25 fiscal year 2015; is that correct?

<p style="text-align: right;">Page 225</p> <p>1 MALHOTRA</p> <p>2 <b>A. That is correct. It is to replace some</b></p> <p>3 <b>of the attrition that has been ongoing over the</b></p> <p>4 <b>last six to eight months, that there was a gradual</b></p> <p>5 <b>increase in headcount to replace the attrition.</b></p> <p>6 Q. As the result of the reversal in</p> <p>7 headcount reductions, there will be increased</p> <p>8 costs to the City; correct?</p> <p>9 <b>A. Yes. There will be increased costs.</b></p> <p>10 <b>Hopefully there will be increased revenues. But,</b></p> <p>11 <b>yes, the increased headcount for the City will</b></p> <p>12 <b>result in increased payroll costs compared to that</b></p> <p>13 <b>same time frame earlier.</b></p> <p>14 Q. Do you know how much increased payroll</p> <p>15 costs, in ballpark, from the reversal in</p> <p>16 headcount?</p> <p>17 <b>A. I do not because I have to look at the</b></p> <p>18 <b>grant-funded positions. But I would have to look</b></p> <p>19 <b>at that detail, which I can probably get to.</b></p> <p>20 Q. You assume some wage-inflation rates for</p> <p>21 different periods of time on Page 10. Where did</p> <p>22 those numbers come from?</p> <p>23 <b>A. That was a part of the settlement.</b></p> <p>24 Q. Okay. Page 10, Paragraph C, you assume</p> <p>25 bonus payments of 2.5 percent for non-uniformed</p>	<p style="text-align: right;">Page 227</p> <p>1 MALHOTRA</p> <p>2 Q. I mean, was Milliman asked to do a</p> <p>3 special analysis specifically for purposes of, you</p> <p>4 know, your expert opinions?</p> <p>5 <b>A. Not for my expert opinions but they were</b></p> <p>6 <b>asked to do a specific analysis on the per-head</b></p> <p>7 <b>cost of the medical plan the City was planning to</b></p> <p>8 <b>offer.</b></p> <p>9 Q. And is there written documentation</p> <p>10 regarding that?</p> <p>11 <b>A. Yes, there is.</b></p> <p>12 Q. And why were they asked to do that</p> <p>13 analysis?</p> <p>14 <b>A. So that the City could use more accurate</b></p> <p>15 <b>assumptions in terms of what the healthcare costs</b></p> <p>16 <b>would be for its employees in the foreseeable</b></p> <p>17 <b>future.</b></p> <p>18 Q. And then you state that medical</p> <p>19 inflation is capped at 4 percent after fiscal year</p> <p>20 2009 -- '19. Where does that come from?</p> <p>21 <b>A. That is based on an assumption, which is</b></p> <p>22 <b>a risk in the plan; but that the medical inflation</b></p> <p>23 <b>is capped at 4 percent after fiscal year '19.</b></p> <p>24 Q. I mean, who gave you that assumption?</p> <p>25 Was that something you were given, or you came up</p>
<p style="text-align: right;">Page 226</p> <p>1 MALHOTRA</p> <p>2 and 3.0 percent of salary for uniformed employees.</p> <p>3 Where did those numbers come from?</p> <p>4 <b>A. It's part of a settlement.</b></p> <p>5 Q. Okay. You talk about health and benefit</p> <p>6 expenditures in Paragraphs D and Page 10.</p> <p>7 Do you see that?</p> <p>8 <b>A. I'm sorry?</b></p> <p>9 Q. The bottom paragraph on Page 10.</p> <p>10 <b>A. Yes.</b></p> <p>11 Q. You talk about health benefit</p> <p>12 expenditures. Do you see where I'm at?</p> <p>13 <b>A. Yes.</b></p> <p>14 Q. And you got that information from</p> <p>15 Milliman?</p> <p>16 <b>A. The per-head costs of the plan, yes, we</b></p> <p>17 <b>got from Milliman.</b></p> <p>18 Q. Do you know how they came up with those</p> <p>19 numbers?</p> <p>20 <b>A. They looked at the actual census data.</b></p> <p>21 <b>They looked at the usage of what the plan was of</b></p> <p>22 <b>the -- by individual participants, I believe. But</b></p> <p>23 <b>I do not want to speculate on what they did. But</b></p> <p>24 <b>they were given information to ascertain what the</b></p> <p>25 <b>plan design of the City would cost.</b></p>	<p style="text-align: right;">Page 228</p> <p>1 MALHOTRA</p> <p>2 with it yourself?</p> <p>3 <b>A. I think it was based on a discussion</b></p> <p>4 <b>with Evan Miller of Jones Day, that we had that</b></p> <p>5 <b>discussion on what assumptions to use for the</b></p> <p>6 <b>cost-effective medical beyond the first five years</b></p> <p>7 <b>and at what point they should be capped.</b></p> <p>8 Q. Okay. And, I mean, what is the</p> <p>9 justification for capping the medical inflation</p> <p>10 rate, et al.?</p> <p>11 <b>A. The justification is that the City has</b></p> <p>12 <b>to figure out a way between the employees and the</b></p> <p>13 <b>City, how -- that those costs don't just keep</b></p> <p>14 <b>rising at a very significant level going forward.</b></p> <p>15 Q. Okay. But right now, there's no</p> <p>16 mechanism in place to cap medical inflation at any</p> <p>17 value, including 4 percent; correct?</p> <p>18 <b>A. There is not in the first five years a</b></p> <p>19 <b>cap that has been put into place from what I can</b></p> <p>20 <b>recall.</b></p> <p>21 Q. But after 2019, there's no mechanism in</p> <p>22 place to cap medical inflation or cap medical</p> <p>23 inflation at 4 percent, is there?</p> <p>24 <b>A. A mechanism -- I mean, those are -- it's</b></p> <p>25 <b>very clear that those are the assumptions in the</b></p>

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<p style="text-align: right;">Page 229</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>plan. And between the City and the unions and the</b></p> <p>3   <b>supervisory board, that mechanism will have to be</b></p> <p>4   <b>put into place. There isn't, to my understanding,</b></p> <p>5   <b>a mechanism in place today other than it's built</b></p> <p>6   <b>into the assumptions in the plan of adjustment.</b></p> <p>7       Q. Okay. But right now nobody has provided</p> <p>8   any mechanism to actually achieve a 4 percent cap</p> <p>9   on medical inflation; correct?</p> <p>10    <b>A. I thought I just answered your question,</b></p> <p>11   <b>which is, get that -- the mechanism is the</b></p> <p>12   <b>assumption that is baked into the plan of</b></p> <p>13   <b>adjustment. And if going forward the City and the</b></p> <p>14   <b>advisory board and the unions are all coming</b></p> <p>15   <b>together, it's very clear what the assumption is</b></p> <p>16   <b>in the plan of adjustment.</b></p> <p>17       Q. But then nobody has agreed to -- there's</p> <p>18   no binding agreement, is there, to cap medical</p> <p>19   inflation at 4 percent right now?</p> <p>20    <b>A. There is -- there is no binding</b></p> <p>21   <b>agreement that I know of other than it's very</b></p> <p>22   <b>clear that is the assumption in the plan of</b></p> <p>23   <b>adjustment.</b></p> <p>24       Q. I mean, does the plan assume a 4 percent</p> <p>25   rate, or is the rate not specified in the plan?</p>	<p style="text-align: right;">Page 231</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>inflationary index, which was lower than the</b></p> <p>3   <b>overall just so that the averages would be close.</b></p> <p>4       Q. Do you know what period of data you</p> <p>5   looked at?</p> <p>6       <b>A. From the Bureau of Economic Analysis, I</b></p> <p>7   <b>think the average was less than 2 percent for the</b></p> <p>8   <b>last 20 years.</b></p> <p>9       Q. You talk about a decrease after</p> <p>10   transition to the health and wellness department.</p> <p>11   What is that talking about?</p> <p>12    <b>A. That is basically -- the health and</b></p> <p>13   <b>wellness department is a grant-funded department,</b></p> <p>14   <b>and it was transitioned out of the City. So the</b></p> <p>15   <b>grant-associated revenues that were associated</b></p> <p>16   <b>with the health and wellness department and the</b></p> <p>17   <b>grant-associated expenses or the payroll-related</b></p> <p>18   <b>expense of the health and wellness department were</b></p> <p>19   <b>transitioned out. So it was more or less a net</b></p> <p>20   <b>offset.</b></p> <p>21       Q. On Page 12, Paragraph 3, you're assuming</p> <p>22   a 1 percent annual cost of inflation for</p> <p>23   utilities. What's that based on?</p> <p>24    <b>A. It's the same assumption as earlier. We</b></p> <p>25   <b>looked at the -- I can repeat it.</b></p>
<p style="text-align: right;">Page 230</p> <p>1                   <b>MALHOTRA</b></p> <p>2       <b>A. In the plan documents in the disclosure</b></p> <p>3   <b>statement, I would have to go back and look. But</b></p> <p>4   <b>in the financial projections, it's clearly</b></p> <p>5   <b>articulated that a 4 percent cap has been used.</b></p> <p>6       Q. I mean, it's possible that there won't</p> <p>7   be a 4 percent cap on medical inflation; correct?</p> <p>8       <b>A. I mean, there's a lot of things in the</b></p> <p>9   <b>plan that are possible. It's an assumption.</b></p> <p>10       Q. Page 11 you've got this assumption of a</p> <p>11   1 percent annual class of inflation for</p> <p>12   professional and contractual services. Do you</p> <p>13   know where that came from?</p> <p>14    <b>A. Yeah. We looked at the -- we looked at</b></p> <p>15   <b>a couple of sources in terms of what the</b></p> <p>16   <b>historical inflation was over the last 20 years.</b></p> <p>17   <b>And I think we got that information from the BEA,</b></p> <p>18   <b>which is the Bureau of Economic Analysis, and</b></p> <p>19   <b>looked at -- the historical inflation rate was</b></p> <p>20   <b>just shy of 2 percent.</b></p> <p>21       <b>But when we looked at certain other</b></p> <p>22   <b>elements of the cost that we had already</b></p> <p>23   <b>incorporated, like a 2 percent salary increase or</b></p> <p>24   <b>a 4-to-6 percent medical inflation increase, the</b></p> <p>25   <b>rest of the expenses we only used a 1 percent</b></p>	<p style="text-align: right;">Page 232</p> <p>1                   <b>MALHOTRA</b></p> <p>2       Q. That's okay. It's the Bureau -- what</p> <p>3   was it? The Bureau of Economic --</p> <p>4       <b>A. The Bureau of the Economic -- the US</b></p> <p>5   <b>Bureau of Economic Analysis and adjusting for the</b></p> <p>6   <b>items that we had already, discretely, had an</b></p> <p>7   <b>inflationary component attached to it.</b></p> <p>8       Q. And then you assume the 1 percent annual</p> <p>9   cost of inflation for purchase services, that's</p> <p>10   for the same source?</p> <p>11    <b>A. That is correct.</b></p> <p>12       Q. And then you've got an increase</p> <p>13   adjustment for increased prisoner pre-arraignment,</p> <p>14   function costs, and payroll processing management.</p> <p>15   Where did that come from?</p> <p>16    <b>A. The increased prisoner pre-arraignment</b></p> <p>17   <b>function costs would have come from the police</b></p> <p>18   <b>department. And the additional payroll processing</b></p> <p>19   <b>cost was based on the estimate provided in</b></p> <p>20   <b>transitioning the HR payroll system from its</b></p> <p>21   <b>existing structure today to a new system.</b></p> <p>22       Q. Page 13, Paragraph 9, you talk about the</p> <p>23   DDOT subsidy being projected to increase. How did</p> <p>24   you determine the increase, the size of the</p> <p>25   increase?</p>

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<p style="text-align: right;">Page 233</p> <p>1 MALHOTRA</p> <p>2 <b>A. So the subsidy increase is predominantly</b></p> <p>3 <b>driven, as stated here, in terms of the revised</b></p> <p>4 <b>methodology in the State-calculated and</b></p> <p>5 <b>State-operating assistance. And we continued to</b></p> <p>6 <b>use a 1 percent inflation for -- most of the</b></p> <p>7 <b>expenses, other than for salaries and wages, we</b></p> <p>8 <b>used a -- the same assumptions as we had used for</b></p> <p>9 <b>all of the non-uniformed professionals, as well as</b></p> <p>10 <b>the expenses related to healthcare were also based</b></p> <p>11 <b>on the same assumptions as the non-uniformed</b></p> <p>12 <b>professionals.</b></p> <p>13 Q. 14, Page 14, Paragraph L, talks about</p> <p>14 the exit financing. Are all those assumptions</p> <p>15 that you used, such as the data, the note, and the</p> <p>16 term and the interest rate, are those -- they were</p> <p>17 all information provided by Miller Buckfire;</p> <p>18 correct?</p> <p>19 <b>A. That is correct. I had discussions with</b></p> <p>20 <b>them about it in terms of the structure, but most</b></p> <p>21 <b>of those assumptions are provided by Miller</b></p> <p>22 <b>Buckfire.</b></p> <p>23 Q. Page 15, Paragraph O, you talk about</p> <p>24 blight reduction. And you note that</p> <p>25 blight-removal expenditures exclude heavy</p>	<p style="text-align: right;">Page 235</p> <p>1 MALHOTRA</p> <p>2 annual wage growth assumption come from?</p> <p>3 <b>A. So that comes from the long-term CBO,</b></p> <p>4 <b>which is the congressional budget office outlook</b></p> <p>5 <b>that's pulled together, which basically forecast</b></p> <p>6 <b>long-term inflation to be 2.2 percent. And so we</b></p> <p>7 <b>used the 2 percent for the second -- for the first</b></p> <p>8 <b>and second decade and then 2.25 for the third and</b></p> <p>9 <b>fourth decade.</b></p> <p>10 Q. The 2.0, how many years of data is the</p> <p>11 CBO --</p> <p>12 <b>A. It goes out --</b></p> <p>13 Q. -- number based on?</p> <p>14 <b>A. It goes out until 2053.</b></p> <p>15 Q. And what would -- if you used a wage</p> <p>16 growth of 1 percent, the cost to the City from</p> <p>17 wages would be significantly reduced; correct?</p> <p>18 <b>A. If you change only that assumption from</b></p> <p>19 <b>2 percent to 1 percent, that would -- yes, the</b></p> <p>20 <b>cost would come down.</b></p> <p>21 Q. Do you have an idea of the dollar amount</p> <p>22 that the cost would come down if you changed the</p> <p>23 wage growth to 1 percent?</p> <p>24 <b>A. I don't have that handy, no.</b></p> <p>25 Q. And would it be hundreds of millions of</p>
<p style="text-align: right;">Page 234</p> <p>1 MALHOTRA</p> <p>2 commercial blight.</p> <p>3 Do you see that?</p> <p>4 <b>A. That is correct.</b></p> <p>5 Q. The City's blight-reduction plan will --</p> <p>6 it won't reduce commercial blight at all in the</p> <p>7 city; correct?</p> <p>8 <b>A. The current estimate that is provided in</b></p> <p>9 <b>the plan, my understanding is, does not include</b></p> <p>10 <b>commercial blight removal in the forecast.</b></p> <p>11 Q. And Page 15, Paragraph Q, you talk --</p> <p>12 the contingency reserve was set at 1 percent. How</p> <p>13 did you determine that number?</p> <p>14 <b>A. So I looked at the revenues over the</b></p> <p>15 <b>next 10 years, and I looked at the top five</b></p> <p>16 <b>revenues. And they were essentially growing by an</b></p> <p>17 <b>approximate rate of 1 percent a year over the</b></p> <p>18 <b>forecast period of 10 years. And used that as a</b></p> <p>19 <b>level of contingency to be put into the plan.</b></p> <p>20 <b>Although revenues are increasing at a</b></p> <p>21 <b>faster rate beyond 10 years, we only left a</b></p> <p>22 <b>1 percent contingency to be in the plan.</b></p> <p>23 Q. Page 19, Paragraph B, at the top, you</p> <p>24 assume a 2 percent annual wage growth and then</p> <p>25 2.25 percent after that. Where does the 2 percent</p>	<p style="text-align: right;">Page 236</p> <p>1 MALHOTRA</p> <p>2 dollars?</p> <p>3 <b>A. Starting when? In what time frame?</b></p> <p>4 Q. Well, throughout the entire time frame.</p> <p>5 <b>A. I don't want to speculate. I would</b></p> <p>6 <b>rather just do the math because it has a</b></p> <p>7 <b>compounding feature to it which also impacts</b></p> <p>8 <b>overtime. So I would rather just do the math and</b></p> <p>9 <b>give you an answer.</b></p> <p>10 Q. I mean, would it -- I'm just trying to</p> <p>11 get an order of magnitude on that, the wage growth</p> <p>12 rate.</p> <p>13 <b>A. Like I said, I would prefer to do the</b></p> <p>14 <b>math versus just give you a guesstimate, because</b></p> <p>15 <b>it's a big number with respect to what the City</b></p> <p>16 <b>pays for payroll, and I would rather be accurate</b></p> <p>17 <b>in terms of making a wage assumption impact.</b></p> <p>18 Q. Changes in the wage growth factor can</p> <p>19 have a significant effect on the City's revenues,</p> <p>20 because the wage expenditures are a significant</p> <p>21 component of the City's total expenditures; is</p> <p>22 that fair?</p> <p>23 MR. STEWART: Objection.</p> <p>24 THE WITNESS: I would say wages are --</p> <p>25 wages and salaries and health benefits</p>

<p style="text-align: right;">Page 237</p> <p>1 MALHOTRA</p> <p>2 combined are the largest portion of the</p> <p>3 City's budget. And assumptions with respect</p> <p>4 to wage growth are -- have an important and</p> <p>5 material impact on the City's assumptions,</p> <p>6 everything else being constant.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. Other than the wage growth assumption,</p> <p>9 are there other assumptions that can have a</p> <p>10 significant effect in terms of the overall</p> <p>11 revenues or expenditures?</p> <p>12 <b>A. Over 10 years or 40?</b></p> <p>13 Q. Over 10 years.</p> <p>14 <b>A. Yes. I mean, over 10 years the City was</b></p> <p>15 <b>relying upon its revenue increases that are</b></p> <p>16 <b>forecasted in the plan based on various operating</b></p> <p>17 <b>initiatives and -- which may or may not</b></p> <p>18 <b>materialize.</b></p> <p>19 <b>The City is relying upon all the</b></p> <p>20 <b>third-party funding coming in to make expansion</b></p> <p>21 <b>contributions. Beyond that, the City is on the</b></p> <p>22 <b>hook for its unfunded liability on its pensions at</b></p> <p>23 <b>the end of the 10 years, which has to get</b></p> <p>24 <b>amortized.</b></p> <p>25 <b>So I would say those are some of the</b></p>	<p style="text-align: right;">Page 239</p> <p>1 MALHOTRA</p> <p>2 correct?</p> <p>3 <b>A. To the -- I'm sorry.</b></p> <p>4 Q. The 36th District Court in Detroit.</p> <p>5 <b>A. That are owed to?</b></p> <p>6 Q. Owed. Owed to it. Are you aware of</p> <p>7 that?</p> <p>8 <b>A. I'm not sure of the exact dollar amount</b></p> <p>9 <b>or if it's hundreds of millions of dollars.</b></p> <p>10 Q. You haven't investigated that at all?</p> <p>11 <b>A. I haven't done that on 36th District</b></p> <p>12 <b>Court, no.</b></p> <p>13 Q. And your forecast doesn't include sums</p> <p>14 attributable to collection of the amounts that are</p> <p>15 owed to the court system?</p> <p>16 <b>A. I believe the operating initiatives in</b></p> <p>17 <b>the Conway MacKenzie reinvestment expenditures do.</b></p> <p>18 <b>So that would be an appropriate question to ask</b></p> <p>19 <b>them.</b></p> <p>20 Q. But you don't know, sitting here today,</p> <p>21 how the amounts owed to the court system in</p> <p>22 Detroit are treated in your forecast?</p> <p>23 <b>A. Like I just said, there's collections of</b></p> <p>24 <b>incremental court dues in the Conway MacKenzie</b></p> <p>25 <b>model, but I would ask them about the exact</b></p>
<p style="text-align: right;">Page 238</p> <p>1 MALHOTRA</p> <p>2 <b>assumptions that come to my mind right now, but we</b></p> <p>3 <b>could go through each one in more detail.</b></p> <p>4 Q. Your forecasts don't include any amounts</p> <p>5 that could be derived from privatizing Detroit's</p> <p>6 interest in the Detroit Windsor Tunnel, do they?</p> <p>7 <b>A. No, they do not.</b></p> <p>8 Q. And has Ernst &amp; Young in the past done</p> <p>9 some work on increasing revenue from the</p> <p>10 Detroit Windsor Tunnel?</p> <p>11 <b>A. Yes.</b></p> <p>12 Q. What kind of work were you doing?</p> <p>13 <b>A. Our team had looked at just the lease</b></p> <p>14 <b>arrangement and trying to ascertain to make sure</b></p> <p>15 <b>that Detroit was collecting its full share -- or</b></p> <p>16 <b>the appropriate share of its rent. I can go back</b></p> <p>17 <b>and get more details, but that's the extent of</b></p> <p>18 <b>what I remember.</b></p> <p>19 Q. Have you done any investigation into</p> <p>20 whether Detroit's interest in the tunnel can be</p> <p>21 privatized?</p> <p>22 <b>A. I have not.</b></p> <p>23 Q. The -- there's a significant -- there's</p> <p>24 hundreds of millions of dollars that are owed to</p> <p>25 the court in Detroit. You're aware of that;</p>	<p style="text-align: right;">Page 240</p> <p>1 MALHOTRA</p> <p>2 <b>specifics.</b></p> <p>3 Q. But you really didn't know what the --</p> <p>4 you don't know how much you're assuming will be</p> <p>5 collected from moneys owed the court in your</p> <p>6 forecast?</p> <p>7 <b>A. You know what? I could get to it. I</b></p> <p>8 <b>don't know sitting here, but I could get to it if</b></p> <p>9 <b>we go all through the exhibits between this one</b></p> <p>10 <b>and there's one from the restructuring agreement</b></p> <p>11 <b>and reinvestment initiatives that's actually, from</b></p> <p>12 <b>I remember, discrete line item on 36th District</b></p> <p>13 <b>Court. I just can't recall that year-by-year</b></p> <p>14 <b>dollar amount.</b></p> <p>15 Q. Do you have any idea how Conway</p> <p>16 MacKenzie went about figuring out how much money</p> <p>17 could be obtained that was owed to the court</p> <p>18 system?</p> <p>19 <b>A. No. I would be speculating if I tried</b></p> <p>20 <b>to answer that.</b></p> <p>21 Q. And, in general, do you have an</p> <p>22 understanding of how Conway MacKenzie went about</p> <p>23 calculating the amounts that it's given you in its</p> <p>24 reinvestment projection?</p> <p>25 <b>A. I can say what -- the process I went</b></p>

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<p style="text-align: right;">Page 241</p> <p>1                   <b>MALHOTRA</b></p> <p>2    <b>through to understand where they were coming up</b></p> <p>3    <b>with the numbers, is we had several -- several</b></p> <p>4    <b>discussions with their team and discussions on a</b></p> <p>5    <b>by-department basis to make sure that if they were</b></p> <p>6    <b>revenue initiatives that they were including in</b></p> <p>7    <b>their particular assumptions that we had not</b></p> <p>8    <b>already included in the baseline, we went that --</b></p> <p>9    <b>through that on several assumptions, including</b></p> <p>10   <b>headcount.</b></p> <p>11           <b>So -- and so the process that we went</b></p> <p>12   <b>through was to make sure that we weren't</b></p> <p>13   <b>double-counting revenues or expenses. So we went</b></p> <p>14   <b>through a fairly detailed process to ensure that.</b></p> <p>15           <b>(Discussion held off the</b></p> <p>16           <b>stenographic record.)</b></p> <p>17 BY MR. SMITH:</p> <p>18       Q. Does your forecast take into account</p> <p>19       outsourcing of fleet maintenance?</p> <p>20       <b>A. We do not include that in the baseline.</b></p> <p>21       <b>I would have to go back and check if that</b></p> <p>22       <b>assumption is there in the restructuring and</b></p> <p>23       <b>reinvestment initiatives, but I know the</b></p> <p>24       <b>outsourcing of fleet maintenance is not included</b></p> <p>25       <b>in the baseline.</b></p>	<p style="text-align: right;">Page 243</p> <p>1                   <b>MALHOTRA</b></p> <p>2    <b>those grants. Where there's been recent grants</b></p> <p>3    <b>that have been awarded, we have shown that.</b></p> <p>4           <b>We have even the State funding that</b></p> <p>5    <b>comes in -- or the federal funding that comes into</b></p> <p>6    <b>Department of Transportation. Other than the</b></p> <p>7    <b>information we know, we've kept it generally flat.</b></p> <p>8    <b>So we've highlighted for grants we know. Like the</b></p> <p>9    <b>grant for blight remediation, we have included</b></p> <p>10   <b>that.</b></p> <p>11       Q. There was a recent federal grant of</p> <p>12       \$300 million that was announced. Are you familiar</p> <p>13       with that?</p> <p>14       <b>A. Yes. When you -- I'm sorry. When you</b></p> <p>15       <b>say recent, this is probably six, eight months</b></p> <p>16       <b>ago, if that's the same grant you're referring to.</b></p> <p>17       Q. I'm not sure if it was six or eight</p> <p>18       months ago, but you've got a \$300 million grant</p> <p>19       from the federal government incorporated into your</p> <p>20       forecast.</p> <p>21       <b>A. First, I would like clarification on</b></p> <p>22       <b>what grant for \$300 million we're talking about,</b></p> <p>23       <b>just so that . . .</b></p> <p>24       Q. Are you assuming that there will be any</p> <p>25       significant private donations to the City --</p>
<p style="text-align: right;">Page 242</p> <p>1                   <b>MALHOTRA</b></p> <p>2       Q. Okay. You know that the City has been</p> <p>3       investigating outsourcing fleet maintenance;</p> <p>4       correct?</p> <p>5       <b>A. Yes.</b></p> <p>6       Q. Okay. And do you know what the</p> <p>7       projected savings are supposed to be from</p> <p>8       outsourcing fleet maintenance?</p> <p>9       <b>A. I do not know that off the top of my</b></p> <p>10      <b>head in terms of what the exact savings were</b></p> <p>11      <b>potentially from fleet outsourcing.</b></p> <p>12      Q. That's okay. It's going to take you a</p> <p>13      long time; you don't have to feel like you have to</p> <p>14      look it up.</p> <p>15      <b>A. Okay.</b></p> <p>16      Q. And you're not sure whether it's in the</p> <p>17      restructuring or not?</p> <p>18      <b>A. I don't want to speculate. I'm not sure</b></p> <p>19      <b>on that.</b></p> <p>20      Q. You're assuming that grants to the City</p> <p>21      are going to continue at the same level of -- at</p> <p>22      the same funding level; correct?</p> <p>23      <b>A. Grants are spread out over a lot of</b></p> <p>24      <b>departments. So where we know of discrete grants</b></p> <p>25      <b>that are expiring, we have shown the reduction of</b></p>	<p style="text-align: right;">Page 244</p> <p>1                   <b>MALHOTRA</b></p> <p>2       donations or grants over the course of the ten</p> <p>3       years?</p> <p>4       <b>A. Donations. Well, you've got the grand</b></p> <p>5       <b>bargain or -- but --</b></p> <p>6       Q. Other than the grand bargain, are any</p> <p>7       contributions by private entities incorporated</p> <p>8       into your projections?</p> <p>9       <b>A. We've got the hardest-hit funds, which</b></p> <p>10      <b>we've talked about, that is coming in. Can't</b></p> <p>11      <b>recall if any -- the specific one-off donations</b></p> <p>12      <b>that are coming in.</b></p> <p>13           <b>For the federal guides that were</b></p> <p>14      <b>highlighted, we went through -- and this was back</b></p> <p>15      <b>again, six, eight months ago, from what I</b></p> <p>16      <b>recall -- and in some detail to ascertain what</b></p> <p>17      <b>grants, if any, were applicable for the City of</b></p> <p>18      <b>Detroit and the general fund in the plan of</b></p> <p>19      <b>adjustment.</b></p> <p>20      Q. Who did the analysis of what grant</p> <p>21      moneys were available? Was that something your</p> <p>22      team did or was that somebody else that did that?</p> <p>23      <b>A. My team did that.</b></p> <p>24      Q. And, certainly, you can't represent to</p> <p>25      the Court that over the course of the next ten</p>

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<p style="text-align: right;">Page 245</p> <p>1 MALHOTRA</p> <p>2 years, there won't be incremental additional grant</p> <p>3 money from the federal, state, or -- governments</p> <p>4 or private donors that's not incorporated into</p> <p>5 your forecasts; correct?</p> <p>6 <b>A. Yeah. I cannot say whether these grants</b></p> <p>7 <b>will go up or the existing grants will go down. I</b></p> <p>8 <b>can just talk about the assumptions that we have</b></p> <p>9 <b>right now.</b></p> <p>10 Q. Do you believe all -- well, I assume all</p> <p>11 the cost savings and revenue initiatives that are</p> <p>12 discussed in Mr. Moore's report, expert report,</p> <p>13 are incorporated into your forecast?</p> <p>14 <b>A. I have not read Chuck Moore's report,</b></p> <p>15 <b>but the revenues and expenses, as provided to us</b></p> <p>16 <b>by Conway MacKenzie on the restructuring and</b></p> <p>17 <b>reinvestment initiatives and the corresponding</b></p> <p>18 <b>operating revenue increases, have been</b></p> <p>19 <b>incorporated into the plan of adjustment and the</b></p> <p>20 <b>July 2nd updates.</b></p> <p>21 Q. Are you aware that there are a number of</p> <p>22 businesses in Detroit that are operating without</p> <p>23 licenses?</p> <p>24 <b>A. I do not know.</b></p> <p>25 Q. Your forecast doesn't incorporate any</p>	<p style="text-align: right;">Page 247</p> <p>1 MALHOTRA</p> <p>2 Q. Well, I mean, there are ongoing --</p> <p>3 compared to whatever the last reported period is,</p> <p>4 do you agree that the economy is improving?</p> <p>5 <b>A. I -- if you can give me a specific</b></p> <p>6 <b>question on compared to what time frame. It's</b></p> <p>7 <b>hard for me to give you an answer.</b></p> <p>8 Q. Okay. So you can't tell me whether the</p> <p>9 economy is improving in Detroit?</p> <p>10 <b>A. Compared to what time frame?</b></p> <p>11 Q. There's no -- nothing in your analysis</p> <p>12 that takes into account improving economic</p> <p>13 conditions in the City of Detroit?</p> <p>14 <b>A. There is assumptions with respect to</b></p> <p>15 <b>how -- since the last recession. Maybe if I can</b></p> <p>16 <b>put that into context. Right? Since the last</b></p> <p>17 <b>recession, yes, Detroit's economy is improving.</b></p> <p>18 <b>So I'm comfortable to say that.</b></p> <p>19 <b>But that's -- I'm just trying to figure</b></p> <p>20 <b>out if it's a short-term time frame that you're</b></p> <p>21 <b>trying to compare or much longer. Since the last</b></p> <p>22 <b>recession, Detroit's economy is improving.</b></p> <p>23 Q. In the short term, Detroit's economy is</p> <p>24 improving also?</p> <p>25 MR. STEWART: Objection.</p>
<p style="text-align: right;">Page 246</p> <p>1 MALHOTRA</p> <p>2 amounts for increased revenue due to requiring</p> <p>3 businesses that are operating without licenses to</p> <p>4 obtain licenses as required by law?</p> <p>5 <b>A. I do not know of businesses operating</b></p> <p>6 <b>without licenses. So I do not know.</b></p> <p>7 Q. Do you know whether the corporate</p> <p>8 income -- I mean, the business tax reports are</p> <p>9 audited at all by the City of Detroit?</p> <p>10 <b>A. That would be a KPMG or a Plante Moran</b></p> <p>11 <b>question.</b></p> <p>12 Q. You just don't know the answer?</p> <p>13 <b>A. Yeah, we're not involved in any of those</b></p> <p>14 <b>audits, so I can't tell.</b></p> <p>15 Q. Do you agree that City revenue should</p> <p>16 increase as the economy improves?</p> <p>17 <b>A. Yes. Overall, if the economy continues</b></p> <p>18 <b>to do well, Detroit will get -- potentially</b></p> <p>19 <b>benefit from its pro rata share, as long as the</b></p> <p>20 <b>overall trends and the issues that are specific to</b></p> <p>21 <b>Detroit are taken into consideration at the same</b></p> <p>22 <b>time.</b></p> <p>23 Q. Do you agree that the economy is</p> <p>24 improving in Detroit?</p> <p>25 <b>A. Compared to what time frame?</b></p>	<p style="text-align: right;">Page 248</p> <p>1 MALHOTRA</p> <p>2 THE WITNESS: In the short term, you</p> <p>3 mean since the recession.</p> <p>4 BY MR. SMITH:</p> <p>5 Q. Well, which -- what recession are you</p> <p>6 talking about?</p> <p>7 <b>A. Well, 2008/2009.</b></p> <p>8 Q. I got it.</p> <p>9 <b>A. And since 2008/2009, Detroit's economy</b></p> <p>10 <b>has improved. But when I look at overall revenue</b></p> <p>11 <b>basis, State revenue sharing is down, so State aid</b></p> <p>12 <b>is down.</b></p> <p>13 <b>So I just want to make sure. I'm just</b></p> <p>14 <b>trying to draw some specificity around your</b></p> <p>15 <b>question.</b></p> <p>16 Q. So the economy in Detroit has been</p> <p>17 improving since 2008 or 2009; correct?</p> <p>18 <b>A. Relative to 2000 -- 2008/2009, the</b></p> <p>19 <b>economy is better today.</b></p> <p>20 Q. And since that time, the State has been</p> <p>21 decreasing State payments through revenue sharing</p> <p>22 to Detroit; correct?</p> <p>23 <b>A. I don't want to draw a correlation</b></p> <p>24 <b>between those two things, between the improved --</b></p> <p>25 <b>between the end of a recession and the State's</b></p>

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2 decline. I can say the State revenue sharing has  
3 declined since 2008 or 2009 compared to where we  
4 are today.

5 Q. And, in fact, the State has reduced  
6 revenue sharing by hundreds of millions of dollars  
7 to Detroit in the last decade; correct?

8 A. I have the numbers since 2008. And  
9 since 2008, the number, from what I can tell from  
10 these -- my information here, it's roughly about  
11 \$60 million that Detroit's revenue sharing has  
12 gone down, annual.

13 Q. Annually?

14 A. That's correct.

15 Q. So \$60 million a year from 2008 to the  
16 present is the reduction in Detroit's revenue  
17 sharing?

18 A. I would actually like to -- now that I  
19 have this in front of me, I would like to clarify.  
20 The real revenue decline has really started after  
21 2010 in State aid from -- and I want to just make  
22 sure that's clear for the record, because I said  
23 2008 earlier.

24 From 2008 to 2010, State aid was  
25 continuing to go up. And since 2010, it has come

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2 down for the years '11, '12; and then in '13 and  
3 '14 has taken a slight increase back, but still  
4 not at the same level as it was in 2010.

5 Q. Since 2010, approximately how much has  
6 the State cut revenue sharing in total?

7 A. In total, if I were to look at it  
8 through fiscal year '14, it's -- compared to 2010  
9 through 2014 in aggregate, the State aid has been  
10 lowered by -- in excess of \$200 million.

11 Q. Yeah. Do you know why the State's cut  
12 the aid, the revenue sharing aid?

13 A. I believe it's been cut for lots of  
14 local municipalities based on what the State  
15 budget was, but I do not know the exact basis of  
16 that last cut.

17 Q. Do you believe that blight-reduction  
18 efforts should improve property values in the  
19 City?

20 A. Overall, yes, in terms of the  
21 blight-reduction initiatives, should help either  
22 the collection rates or a cleanup of the tax roll  
23 in terms of the assessed values.

24 Q. And then just by virtue of the fact that  
25 blight has been reduced, property values should

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2 increase. Do you agree with that?

3 A. I would have to give that some thought  
4 in terms of that direct link, which was your  
5 questioning this morning, that -- which was that  
6 there is no direct link between blight and any of  
7 the revenues.

8 But -- and my answer remains consistent,  
9 which is blight expenditures are a part of the  
10 overall reinvestment package, which should help  
11 the overall revenue and property taxes and income  
12 taxes of the city.

13 Q. I mean, do you know who came up with  
14 this idea to spend hundreds of millions of dollars  
15 on blight reduction?

16 A. It was a -- part of the overall  
17 restructuring effort; but I would -- on more  
18 details on that, I'm sure Conway MacKenzie will  
19 have.

20 Q. But you just don't know whose idea it  
21 was to spend hundreds of millions of dollars on  
22 blight reduction?

23 A. There were several discussions on blight  
24 reduction as we were developing the plan. I do  
25 not remember one specific person's idea it was.

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2 Q. And nobody is willing to claim credit to  
3 be the father of the blight-reduction effort; is  
4 that fair?

5 A. I can tell you I am not -- I cannot  
6 answer that.

7 MR. SMITH: I'm going to hand you what  
8 I'm going to mark as Exhibit 4, which is an  
9 email attaching some materials from the  
10 financial advisory board.

11 Here you go.  
12 (Exhibit Malhotra-4 was marked for  
13 identification.)

14 BY MR. SMITH:

15 Q. And you'll recall that we are talking  
16 about consensus revenue reports. And if you look  
17 at the Bates No. POA00537604, you'll see that  
18 there's a revenue consensus conference report  
19 there.

20 A. I'm sorry. What page are you on?

21 Q. It's POA00537604. Do you see that  
22 revenue consensus conference report?

23 A. Yes.

24 Q. And there's some projections in that  
25 report. Have you seen those before?



<p style="text-align: right;">Page 253</p> <p>1 MALHOTRA</p> <p>2 <b>A. I do not recall going through this, but</b></p> <p>3 <b>I would say that I know some of my team members</b></p> <p>4 <b>would have attended this, but I do not recall</b></p> <p>5 <b>reading through this report.</b></p> <p>6 Q. Okay. You didn't attempt to do any</p> <p>7 effort to reconcile your projections with the</p> <p>8 consensus revenue conference projections; correct?</p> <p>9 <b>A. Well, I believe the revenue conference</b></p> <p>10 <b>assumptions were triangulated with the assumptions</b></p> <p>11 <b>that we had in the plan of adjustment. But we</b></p> <p>12 <b>haven't done that recently, but it's a process</b></p> <p>13 <b>that we would undertake versus not.</b></p> <p>14 Q. Okay. I mean, do you know what the</p> <p>15 differences or similarities are between your</p> <p>16 assumptions and the revenue conference?</p> <p>17 <b>A. I would have to read through this</b></p> <p>18 <b>report, but it's something that we can -- we can</b></p> <p>19 <b>get to.</b></p> <p>20 Q. Well, sitting here today, you just don't</p> <p>21 know what differences or similarities are between</p> <p>22 the consensus reports and your projections;</p> <p>23 correct?</p> <p>24 <b>A. I'd be happy to go through this and</b></p> <p>25 <b>provide some of the big changes.</b></p>	<p style="text-align: right;">Page 255</p> <p>1 MALHOTRA</p> <p>2 for that, please.</p> <p>3 MR. SMITH: You know, actually, this</p> <p>4 doesn't have a Bates number on it, but it was</p> <p>5 Moore Exhibit 7 if that helps.</p> <p>6 MR. ALBERTS: Thanks.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. You've got the document in front of you;</p> <p>9 right?</p> <p>10 <b>A. I do have it.</b></p> <p>11 Q. Okay. Does that look familiar or not?</p> <p>12 <b>A. It looks familiar. I've seen this</b></p> <p>13 <b>before.</b></p> <p>14 Q. Okay. If you turn to Page 72, it talks</p> <p>15 about grant funds that remain unspent and</p> <p>16 38.9 million at risk of recapture.</p> <p>17 Do you see that?</p> <p>18 MR. STEWART: 74?</p> <p>19 MR. SMITH: 72.</p> <p>20 THE WITNESS: Yes, I see that.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. Okay. I mean, have you done any</p> <p>23 investigation into whether the City has recently</p> <p>24 had federal grant moneys recaptured or not?</p> <p>25 <b>A. I have not.</b></p>
<p style="text-align: right;">Page 254</p> <p>1 MALHOTRA</p> <p>2 Q. My question is have you done that</p> <p>3 exercise?</p> <p>4 <b>A. I'm trying to think if this particular</b></p> <p>5 <b>date or not. But I believe we had -- as I flip</b></p> <p>6 <b>through this and we look at some of these cash</b></p> <p>7 <b>projections, that we had looked at what some of</b></p> <p>8 <b>the changes were between the revenue conference --</b></p> <p>9 <b>or the differences between the revenue conference</b></p> <p>10 <b>and the short-term outlook. I just don't have it</b></p> <p>11 <b>in front of me. I can't recall what the</b></p> <p>12 <b>differences were. But I think they were some</b></p> <p>13 <b>categories that were up, some categories that were</b></p> <p>14 <b>down.</b></p> <p>15 <b>(Exhibit Malhotra-5 was marked for</b></p> <p>16 <b>identification.)</b></p> <p>17 BY MR. SMITH:</p> <p>18 Q. I'm going to hand you what's been marked</p> <p>19 as Exhibit 5, "Operational Restructuring Summary."</p> <p>20 Have you ever seen that document before?</p> <p>21 <b>A. Is this the Conway MacKenzie report? I</b></p> <p>22 <b>can flip through it --</b></p> <p>23 Q. Yeah, it is a Conway MacKenzie report.</p> <p>24 It says on the first internal page.</p> <p>25 MR. ALBERTS: Can you give a Bates range</p>	<p style="text-align: right;">Page 256</p> <p>1 MALHOTRA</p> <p>2 Q. Okay. Do you have any idea how the risk</p> <p>3 of recapture of federal grant moneys is treated in</p> <p>4 your forecast?</p> <p>5 <b>A. We do not have a specific recapture of</b></p> <p>6 <b>federal grant money incorporated in the forecast.</b></p> <p>7 Q. Over on Page 92 it discuss the 36th</p> <p>8 District Court. And it's -- it says that the</p> <p>9 current accounts receivable is 279 million -- oh,</p> <p>10 whoops. It's on Page 91. Sorry.</p> <p>11 Do you see the bullet that says,</p> <p>12 "Collection rates are extremely low with limited</p> <p>13 proactive collection efforts and process in</p> <p>14 place"?</p> <p>15 <b>A. Yes.</b></p> <p>16 Q. And it notes that the accounts</p> <p>17 receivable for the quarter are 279 million with</p> <p>18 200 million payable to the City?</p> <p>19 <b>A. Yes.</b></p> <p>20 Q. Do you have any idea how that was</p> <p>21 treated in your forecast?</p> <p>22 <b>A. It has not been included in the baseline</b></p> <p>23 <b>forecast, but I do not know if it's included in</b></p> <p>24 <b>this Department of Revenue initiatives of 82.3</b></p> <p>25 <b>million on Page 92 --</b></p>

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<p style="text-align: right;">Page 257</p> <p>1 MALHOTRA</p> <p>2 Q. Okay.</p> <p>3 <b>A. -- that have already been highlighted</b></p> <p>4 <b>here.</b></p> <p>5 Q. But, certainly, your forecast does not</p> <p>6 assume that all of the money owed to the court</p> <p>7 will be collected; correct?</p> <p>8 <b>A. Well, again, I would -- this is a better</b></p> <p>9 <b>question for Conway MacKenzie. But Page 92, from</b></p> <p>10 <b>what I'm seeing, shows \$82 million of revenue</b></p> <p>11 <b>initiatives related to the 36th District Court.</b></p> <p>12 Q. Which is equal to -- my question, is</p> <p>13 your forecast -- you're not saying that, in your</p> <p>14 forecast, that all the money owed to the court is</p> <p>15 going to be collected; correct?</p> <p>16 <b>A. I have not included specifically -- if</b></p> <p>17 <b>your question is, have we included \$200 million of</b></p> <p>18 <b>incremental collections from the court for</b></p> <p>19 <b>receivables that are almost seven years old, we</b></p> <p>20 <b>have not included it.</b></p> <p>21 Q. And sitting here today, you don't know</p> <p>22 what, if any, incremental collections you've</p> <p>23 included in your forecast for the court; correct?</p> <p>24 MR. STEWART: Objection.</p> <p>25 THE WITNESS: When you say -- I would</p>	<p style="text-align: right;">Page 259</p> <p>1 MALHOTRA</p> <p>2 BY MR. SMITH:</p> <p>3 Q. Have you ever seen this document before?</p> <p>4 <b>A. I have seen it. I have not studied this</b></p> <p>5 <b>report.</b></p> <p>6 Q. Okay. If you turn to Page 240, there is</p> <p>7 a discussion of \$440 million of reinvestment funds</p> <p>8 listed in the plan of adjustment.</p> <p>9 Do you see where I'm at?</p> <p>10 <b>A. I see that sentence.</b></p> <p>11 Q. And then it goes on to say -- talk about</p> <p>12 the portion of it that represents money that's</p> <p>13 subject to the bankruptcy court approval, which it</p> <p>14 lists as 368 million.</p> <p>15 Do you see that?</p> <p>16 <b>A. Yes, I see that.</b></p> <p>17 Q. And then it goes on to note that "that</p> <p>18 allocation is not guaranteed. It is contingent</p> <p>19 upon the realization of projected future cost</p> <p>20 savings and revenue for the City. If future</p> <p>21 revenue or cost savings are not realized at the</p> <p>22 projected levels each year, the \$368 million in</p> <p>23 blight elimination funding has the potential to</p> <p>24 shrink significantly."</p> <p>25 Do you see that?</p>
<p style="text-align: right;">Page 258</p> <p>1 MALHOTRA</p> <p>2 say that that's a question on Conway</p> <p>3 MacKenzie for the new revenue initiatives</p> <p>4 that they have incorporated for the 36th</p> <p>5 District Court.</p> <p>6 BY MR. SMITH:</p> <p>7 Q. Yeah, and Conway MacKenzie is not here.</p> <p>8 My question is, do you know what's in your own</p> <p>9 forecast regarding --</p> <p>10 <b>A. I do know what's in my own forecast.</b></p> <p>11 Q. Okay. How much money do you forecast</p> <p>12 will be collected from the courts in your</p> <p>13 forecast?</p> <p>14 <b>A. So there is approximately, I would say,</b></p> <p>15 <b>between 180 -- around 180-plus million dollars of</b></p> <p>16 <b>revenues that are included from the 36th District</b></p> <p>17 <b>Court over the next ten years. But I do not</b></p> <p>18 <b>believe there is any collection of past-due</b></p> <p>19 <b>accounts receivable as a new revenue initiative</b></p> <p>20 <b>included in that forecast.</b></p> <p>21 Q. I'm going to hand you what I've marked</p> <p>22 as Exhibit 6, which is a report of the Blight</p> <p>23 Removal Task Force.</p> <p>24 (Exhibit Malhotra-6 was marked for</p> <p>25 identification.)</p>	<p style="text-align: right;">Page 260</p> <p>1 MALHOTRA</p> <p>2 <b>A. I see that.</b></p> <p>3 Q. And were you aware that the blight</p> <p>4 expenditures were contingent on the City realizing</p> <p>5 revenue increases or cost reductions from</p> <p>6 blight-removal efforts?</p> <p>7 <b>A. Yes, of course. It's -- the City does</b></p> <p>8 <b>not have a fixed obligation.</b></p> <p>9 Q. Okay. So it could be that only a small</p> <p>10 fraction of the blight-reduction money is actually</p> <p>11 spent by the City over the next ten years;</p> <p>12 correct?</p> <p>13 <b>A. That is not the City's intent.</b></p> <p>14 Q. If it turns out that revenue is not</p> <p>15 realized or costs are not reduced from blight</p> <p>16 reduction, then a significant portion of the</p> <p>17 blight-reduction money may not be spent by the</p> <p>18 City on blight reduction; correct?</p> <p>19 <b>A. No. It -- the blight expenditure of the</b></p> <p>20 <b>City is not a fixed-debt-type obligation that the</b></p> <p>21 <b>City has taken on. It is not a sinking fund for</b></p> <p>22 <b>blight remediation.</b></p> <p>23 Q. Yeah. The City has no obligation to</p> <p>24 spend any of the blight-reduction money; correct?</p> <p>25 <b>A. The City may not have a legal obligation</b></p>

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<p style="text-align: right;">Page 261</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>to spend the blight money as it's laid out, but</b></p> <p>3   <b>that is not the intent. It's not a legal</b></p> <p>4   <b>obligation to make a debt-like instrument.</b></p> <p>5       Q. The City's intent is that the blight</p> <p>6   expenditure is contingent upon certain results</p> <p>7   being achieved; correct?</p> <p>8       MR. STEWART: Objection.</p> <p>9       THE WITNESS: Could you ask me the</p> <p>10   question again, please?</p> <p>11   BY MR. SMITH:</p> <p>12       Q. The City's intent is that</p> <p>13   blight-reduction expenditures will be contingent</p> <p>14   upon the realization of projected future cost</p> <p>15   savings and revenue for the City; correct?</p> <p>16       <b>A. The City is budgeting for its blight</b></p> <p>17   <b>expense. But if something unforeseen happens,</b></p> <p>18   <b>it's not like there's a default because the City</b></p> <p>19   <b>did not spend that blight amount in that</b></p> <p>20   <b>particular year. So it's -- I'm trying to make</b></p> <p>21   <b>the distinction between a fixed-debt-type</b></p> <p>22   <b>obligation versus not.</b></p> <p>23       Q. And I'm not saying there will be a</p> <p>24   default or anything like that. I'm saying that</p> <p>25   the blight expenditure is a discretionary</p>	<p style="text-align: right;">Page 263</p> <p>1                   MALHOTRA</p> <p>2       <b>A. Okay. Thank you.</b></p> <p>3       Q. Do you agree that the blight reduction</p> <p>4   money is contingent upon the realization of</p> <p>5   projected future cost savings and revenue for the</p> <p>6   City?</p> <p>7       <b>A. What page are you on?</b></p> <p>8       Q. I'm on Page 240.</p> <p>9       <b>A. Yes, I agree with this statement. I</b></p> <p>10   <b>don't agree with your earlier statement.</b></p> <p>11       Q. Okay. So you agree that the blight --</p> <p>12   the blight-elimination funds are contingent upon</p> <p>13   the realization of projected future cost savings</p> <p>14   and revenue for the City; correct?</p> <p>15       <b>A. Yes. That's not a fixed obligation, but</b></p> <p>16   <b>it depends on making sure that the -- if there's</b></p> <p>17   <b>an unforeseen event and the City's budget hasn't</b></p> <p>18   <b>changed dramatically, we have to look at starting</b></p> <p>19   <b>a default-type option.</b></p> <p>20       Q. In fact, much of the expenditures that</p> <p>21   you projected over the 10 years are -- they're</p> <p>22   expenditures the City is not legally obligated to</p> <p>23   make; correct?</p> <p>24       <b>A. Can you define, other than blight, which</b></p> <p>25   <b>specific expenditures you're talking about?</b></p>
<p style="text-align: right;">Page 262</p> <p>1                   MALHOTRA</p> <p>2   expenditure by the City; it's not legally</p> <p>3   obligated to make it; correct?</p> <p>4       <b>A. I would say it's not legal -- legally</b></p> <p>5   <b>obligated, but I don't know. It would be up to</b></p> <p>6   <b>the City whether that's really considered</b></p> <p>7   <b>discretionary or not because there could be</b></p> <p>8   <b>changes in timing. But, you know, that amount is</b></p> <p>9   <b>just not set aside for 10 years today.</b></p> <p>10       Q. Yeah. There's no separate blight</p> <p>11   reduction fund that's been set up to set aside</p> <p>12   money for blight reduction; correct?</p> <p>13       <b>A. Not as of yet.</b></p> <p>14       Q. And --</p> <p>15       <b>A. That I know of, at least.</b></p> <p>16       Q. -- the expenditure of the</p> <p>17   blight-elimination money is contingent; correct?</p> <p>18       <b>A. Contingent on what?</b></p> <p>19       Q. On obtaining certain results regarding</p> <p>20   revenues and costs from the blight-reduction</p> <p>21   efforts; correct?</p> <p>22       <b>A. I don't know if it's contingent upon</b></p> <p>23   <b>costs related to blight-removal efforts. I mean,</b></p> <p>24   <b>it's --</b></p> <p>25       Q. I'm going to read this again.</p>	<p style="text-align: right;">Page 264</p> <p>1                   MALHOTRA</p> <p>2       Q. Well, a lot of the -- I mean, the wages.</p> <p>3   The City can reduce headcount; correct?</p> <p>4       <b>A. The wages are going to be a part of a</b></p> <p>5   <b>five-year collective bargaining agreement.</b></p> <p>6       Q. But people can be fired; right? Or is</p> <p>7   the City obligating itself to keep employment</p> <p>8   levels at the current levels?</p> <p>9       <b>A. I do not believe that the City is</b></p> <p>10   <b>agreeing to that. There is -- there's flexibility</b></p> <p>11   <b>in terms of headcount and only up to a certain</b></p> <p>12   <b>extent when it's tied back to the level of</b></p> <p>13   <b>services.</b></p> <p>14       Q. And the level of services is a</p> <p>15   discretionary decision of the City?</p> <p>16       <b>A. I don't know if it's discretionary or</b></p> <p>17   <b>not, but it is. Those are decision that City</b></p> <p>18   <b>management and council have to make. The wages</b></p> <p>19   <b>are going to be predicated on the collective</b></p> <p>20   <b>bargaining agreements.</b></p> <p>21       <b>(Exhibit Malhotra-7 was marked for</b></p> <p>22   <b>identification.)</b></p> <p>23   BY MR. SMITH:</p> <p>24       Q. Let me hand you what's been marked as</p> <p>25   Exhibit 7. Here you go.</p>

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<p style="text-align: right;">Page 265</p> <p>1 MALHOTRA</p> <p>2 MR. ALBERTS: By the way, do you have</p> <p>3 Bates range for the Blight Removal Task</p> <p>4 Force?</p> <p>5 MR. SMITH: No. It's a public document</p> <p>6 on the Internet.</p> <p>7 MR. ALBERTS: Okay.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. The -- and I've just handed you a news</p> <p>10 article that's another public document. This news</p> <p>11 article discusses a proposal to withhold tax on</p> <p>12 reverse commuters.</p> <p>13 Do you see that?</p> <p>14 <b>A. That's what the, yes, subject says.</b></p> <p>15 Q. And we were talking about the</p> <p>16 reverse-commuter situation earlier today; right?</p> <p>17 <b>A. Yes.</b></p> <p>18 Q. And there's a MacKenzie study that notes</p> <p>19 that there was a -- it found that there was</p> <p>20 approximately 140 million in 2009 of uncollected</p> <p>21 income taxes from Detroit residents working</p> <p>22 outside the City?</p> <p>23 <b>A. That's what this sentence says here.</b></p> <p>24 Q. I mean, are you aware of that MacKenzie</p> <p>25 study that found that there was \$140 million of</p>	<p style="text-align: right;">Page 267</p> <p>1 MALHOTRA</p> <p>2 THE WITNESS: Yes, it's the 24th of</p> <p>3 February, 2014, "Detroit News."</p> <p>4 BY MR. SMITH:</p> <p>5 Q. Here's Exhibit 8, a copy of another</p> <p>6 document, February 19, 2013. Memorandum to</p> <p>7 Governor Snyder. There's no Bates number on it.</p> <p>8 It's publicly available.</p> <p>9 You've seen this report before; correct?</p> <p>10 <b>A. I believe I have. The subject is</b></p> <p>11 <b>throwing me off and it's supplemental</b></p> <p>12 <b>documentation, and so I just don't know if this is</b></p> <p>13 <b>the original report of the financial review team</b></p> <p>14 <b>or some addendum to it.</b></p> <p>15 Q. There's an original and then this</p> <p>16 supplemental that is -- they're two separate</p> <p>17 documents. You're correct.</p> <p>18 <b>A. So I don't remember the supplemental.</b></p> <p>19 Q. Okay. That's fine. If -- but you see</p> <p>20 that in front of, you've got a supplemental report</p> <p>21 of a Detroit financial review team to Governor</p> <p>22 Snyder; correct?</p> <p>23 <b>A. Yes, that's what the subject --</b></p> <p>24 Q. And the Detroit financial review team</p> <p>25 recommended the appointment of an emergency</p>
<p style="text-align: right;">Page 266</p> <p>1 MALHOTRA</p> <p>2 taxes that were not being collected?</p> <p>3 <b>A. I do not know of a specific MacKenzie</b></p> <p>4 <b>study. There have been various estimates based on</b></p> <p>5 <b>various inputs from people to try and estimate a</b></p> <p>6 <b>range. I do not know of a specific MacKenzie</b></p> <p>7 <b>study that MacKenzie did on their own to estimate</b></p> <p>8 <b>that 140 million.</b></p> <p>9 Q. You're offering no opinion on the amount</p> <p>10 of forgone income tax revenue based on failure to</p> <p>11 collect from reverse commuters or anybody else;</p> <p>12 correct?</p> <p>13 <b>A. That is correct.</b></p> <p>14 <b>(Exhibit Malhotra-8 was marked for</b></p> <p>15 <b>identification.)</b></p> <p>16 BY MR. SMITH:</p> <p>17 Q. I'm going to hand you what's been marked</p> <p>18 as Exhibit 8.</p> <p>19 MR. ALBERTS: Do you have a date of that</p> <p>20 news article, please? If you're not going to</p> <p>21 bring them, I'd like a little more -- you</p> <p>22 know . . .</p> <p>23 MR. SMITH: Do you want to read the date</p> <p>24 for me.</p> <p>25 MR. STEWART: It's the 24th --</p>	<p style="text-align: right;">Page 268</p> <p>1 MALHOTRA</p> <p>2 manager for Detroit; is that correct?</p> <p>3 MR. STEWART: Are you asking him what</p> <p>4 the document says or what he remembers or</p> <p>5 what? If you're asking him -- I think he</p> <p>6 said he didn't remember this document, so I'm</p> <p>7 just --</p> <p>8 MR. SMITH: I'm asking what he</p> <p>9 remembers.</p> <p>10 MR. STEWART: So you don't have to look</p> <p>11 at the document; just answer his question.</p> <p>12 THE WITNESS: I do not remember the</p> <p>13 financial review team says emergency manager</p> <p>14 or if they determined an emergency exists.</p> <p>15 BY MR. SMITH:</p> <p>16 Q. Okay. You know that the Detroit</p> <p>17 financial review team concluded that there was a</p> <p>18 financial emergency?</p> <p>19 <b>A. Yes.</b></p> <p>20 Q. And if you look at Page 8 at the top,</p> <p>21 it's the -- the financial review team concluded</p> <p>22 that operational dysfunction contributes to the</p> <p>23 City's serious financial problem.</p> <p>24 Do you see that conclusion of the</p> <p>25 financial review team? First sentence on Page 8.</p>

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<p style="text-align: right;">Page 269</p> <p>1 MALHOTRA</p> <p>2 <b>A. Yes, I see that.</b></p> <p>3 Q. Okay. And isn't it true that the -- I</p> <p>4 mean, many independent reviewers, including the</p> <p>5 financial review team, attributed the poor fiscal</p> <p>6 conditions in Detroit to operational dysfunction</p> <p>7 or mismanagement?</p> <p>8 MR. STEWART: Objection.</p> <p>9 THE WITNESS: It's one of the items</p> <p>10 that's mentioned on the list, is operational</p> <p>11 dysfunction, but -- this operational</p> <p>12 dysfunction. And that's what this piece of</p> <p>13 paper says.</p> <p>14 BY MR. SMITH:</p> <p>15 Q. And ever since you've been working for</p> <p>16 the City of Detroit, has the City been trying to</p> <p>17 improve its operational functions in order to</p> <p>18 improve its fiscal condition?</p> <p>19 <b>A. Yes. I mean, the City has been facing</b></p> <p>20 <b>lots of challenges. But in the amount of resource</b></p> <p>21 <b>that it has available, the City has tried to make</b></p> <p>22 <b>changes where it could.</b></p> <p>23 MR. STEWART: Been on the record</p> <p>24 90 minutes. Be a good time for a break?</p> <p>25 MR. SMITH: Sure.</p>	<p style="text-align: right;">Page 271</p> <p>1 MALHOTRA</p> <p>2 Q. And is that included in your current</p> <p>3 forecast of \$300 million?</p> <p>4 <b>A. The dollars that were in our collective</b></p> <p>5 <b>view in terms of discussions with the City that</b></p> <p>6 <b>were appropriate to be included, they were</b></p> <p>7 <b>included, yes.</b></p> <p>8 Q. I mean, when you say that -- whenever</p> <p>9 the City gets a federal grant, you don't</p> <p>10 necessarily include all that money in your</p> <p>11 forecast or the general fund; is that correct?</p> <p>12 <b>A. Yeah, it depends -- I mean, there is an</b></p> <p>13 <b>analysis, which I don't know if you have handy or</b></p> <p>14 <b>not, but that defines each one of the programs</b></p> <p>15 <b>that made up the \$300 million in funding.</b></p> <p>16 <b>Some of it was related to the general</b></p> <p>17 <b>fund. For instance, the hardest-hit funds were</b></p> <p>18 <b>included in the general fund; however, then there</b></p> <p>19 <b>were some other funds, like, for instance, I</b></p> <p>20 <b>recall, for M-1 Rail that had nothing to do with</b></p> <p>21 <b>the general fund or even the general fund subsidy</b></p> <p>22 <b>to DDOT.</b></p> <p>23 <b>So you have to look at the individual</b></p> <p>24 <b>components that make up that \$300 million on which</b></p> <p>25 <b>we have an analysis to ascertain what funds were</b></p>
<p style="text-align: right;">Page 270</p> <p>1 MALHOTRA</p> <p>2 THE VIDEOGRAPHER: Going off the record</p> <p>3 at 3:31. This is the end of Tape No. 4.</p> <p>4 (Short break taken.)</p> <p>5 THE VIDEOGRAPHER: We are back on the</p> <p>6 record at 3:43. This is the beginning of</p> <p>7 Tape No. 5.</p> <p>8 BY MR. SMITH:</p> <p>9 Q. Mr. Malhotra, if you had that blight</p> <p>10 removal task force report in front of -- do you</p> <p>11 have that? If you turn to Page 4 -- actually,</p> <p>12 Page 2. Sorry about that.</p> <p>13 Page 2, it talks about how, in</p> <p>14 September 2013, the Obama administration announced</p> <p>15 a \$300 million federal effort focused on working</p> <p>16 with the City to address key areas of importance,</p> <p>17 including blight removal, public works, and public</p> <p>18 safety.</p> <p>19 <b>A. I'm sorry.</b></p> <p>20 Q. Page 2?</p> <p>21 <b>A. Is that this?</b></p> <p>22 Q. Page 2 right up here. It's Arabic 2.</p> <p>23 It talks about the \$300 million grant from the</p> <p>24 federal government. Do you see that?</p> <p>25 <b>A. Yes, I do.</b></p>	<p style="text-align: right;">Page 272</p> <p>1 MALHOTRA</p> <p>2 <b>included in the budget.</b></p> <p>3 Q. So because you're only forecasting the</p> <p>4 general fund revenues and expenditures, you don't</p> <p>5 include all grant moneys that are given to the</p> <p>6 City; correct?</p> <p>7 <b>A. We include those that would impact the</b></p> <p>8 <b>City or the initiatives that the City has</b></p> <p>9 <b>highlighted, even through, you know, other</b></p> <p>10 <b>particular departments. If there is going to be</b></p> <p>11 <b>more expenses in other departments that would be</b></p> <p>12 <b>reimbursed by new grant funds, they're not</b></p> <p>13 <b>included because they would be offset.</b></p> <p>14 Q. Well, I mean, what my question is, the</p> <p>15 \$300 million, you don't include with it all of</p> <p>16 that money in your forecast for the general fund;</p> <p>17 correct?</p> <p>18 <b>A. The \$300 million, we have done an</b></p> <p>19 <b>analysis of those funds that are applicable to the</b></p> <p>20 <b>general fund or those funds that may be applicable</b></p> <p>21 <b>to other funds with a general fund may be</b></p> <p>22 <b>providing a subsidy. But so there's detailed</b></p> <p>23 <b>analysis on that to walk through the \$300 million.</b></p> <p>24 Q. And my only question is not every penny</p> <p>25 of the \$300 million is included in revenues in</p>

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<p style="text-align: right;">Page 273</p> <p>1 MALHOTRA</p> <p>2 your forecast; is that correct?</p> <p>3 <b>A. I would answer that what we've</b></p> <p>4 <b>collectively felt were the relevant dollars to be</b></p> <p>5 <b>included have been included.</b></p> <p>6 Q. And then there's some other dollars</p> <p>7 within the 300 million that are not included in</p> <p>8 your forecast; correct?</p> <p>9 <b>A. As there would be other dollars that</b></p> <p>10 <b>could be a reimbursement of an expense that is not</b></p> <p>11 <b>included either. So the -- you know, my answer is</b></p> <p>12 <b>sort of consistent with what I said earlier --</b></p> <p>13 Q. Well, I'm trying to understand how</p> <p>14 grants are treated in your analysis --</p> <p>15 <b>A. Sure.</b></p> <p>16 Q. -- is what I'm trying to understand.</p> <p>17 And if there's a grant that's going to some other</p> <p>18 entity that's not the general fund but it's still</p> <p>19 part of the City, is all of the money from that</p> <p>20 grant, would that be picked up in revenue for</p> <p>21 your -- in your analysis?</p> <p>22 <b>A. It depends on what grant it is, because</b></p> <p>23 <b>there are some non-general fund grants that have</b></p> <p>24 <b>expenses and revenues that equal each other that</b></p> <p>25 <b>are detailed out.</b></p>	<p style="text-align: right;">Page 275</p> <p>1 MALHOTRA</p> <p>2 <b>not know off the top of my head.</b></p> <p>3 Q. Do you have any ballpark idea?</p> <p>4 <b>A. No. I don't want to speculate.</b></p> <p>5 Q. Would it be more than \$100 million?</p> <p>6 <b>A. I don't want to speculate.</b></p> <p>7 Q. Okay. The \$300 million, though, you've</p> <p>8 at least taken account of in your analysis; is</p> <p>9 that correct?</p> <p>10 <b>A. That is correct. We have accounted for</b></p> <p>11 <b>it. We have analyzed that \$300 million; that's</b></p> <p>12 <b>correct.</b></p> <p>13 Q. Did your forecast, before</p> <p>14 September 2013, take into account the</p> <p>15 \$300 million, or was that a special amount that</p> <p>16 was given to the City that was not -- that was in</p> <p>17 addition to historical-type amounts?</p> <p>18 MR. STEWART: Objection.</p> <p>19 Can I just have the question reread,</p> <p>20 please.</p> <p>21 (Thereupon, the requested portion</p> <p>22 was read back by the reporter as</p> <p>23 above recorded.)</p> <p>24 MR. STEWART: I think he said</p> <p>25 historical-type amounts. When you reread it,</p>
<p style="text-align: right;">Page 274</p> <p>1 MALHOTRA</p> <p>2 <b>So if there was a new expense or a new</b></p> <p>3 <b>grant funding that was made available to the City</b></p> <p>4 <b>for which the City had to do additional things to</b></p> <p>5 <b>make sure that it was compliant with that new</b></p> <p>6 <b>grant, that would mean an incremental expense, but</b></p> <p>7 <b>a corresponding reimbursement as well for that</b></p> <p>8 <b>expense.</b></p> <p>9 Q. But -- and my only question is, because</p> <p>10 you're focused on the general fund in your</p> <p>11 analysis, you don't include every dollar of grant</p> <p>12 revenue that is received by the City in your</p> <p>13 projection of revenues; correct?</p> <p>14 <b>A. That is correct, because they are</b></p> <p>15 <b>self-funding. They are net neutral. In aggregate</b></p> <p>16 <b>is the assumption between the revenues and the</b></p> <p>17 <b>expenses.</b></p> <p>18 <b>So yes, there would be other</b></p> <p>19 <b>grant-funded departments or grant funds that are</b></p> <p>20 <b>not included in the revenues or the expenses</b></p> <p>21 <b>because they offset each other.</b></p> <p>22 Q. Do you know how many -- how much money</p> <p>23 in grants that the City has projected to receive</p> <p>24 are not included in your revenues?</p> <p>25 <b>A. I would have to go back and look. I do</b></p>	<p style="text-align: right;">Page 276</p> <p>1 MALHOTRA</p> <p>2 I'm not sure you put the word "type" in.</p> <p>3 That is my question.</p> <p>4 THE WITNESS: The \$300 million was --</p> <p>5 some of that was already amounts that the</p> <p>6 different departments were forecasting; some</p> <p>7 of those amounts were new amounts. So,</p> <p>8 again, if you were to look at that analysis,</p> <p>9 you know, they -- some of the amounts were</p> <p>10 already ongoing grants that were being</p> <p>11 renewed. So it wasn't new money.</p> <p>12 BY MR. SMITH:</p> <p>13 Q. I got it. And so it's correct, isn't</p> <p>14 it, that even since you started doing your</p> <p>15 forecast, the City has received incremental grant</p> <p>16 amounts that it did not -- it was not forecasted</p> <p>17 to receive; correct?</p> <p>18 <b>A. No.</b></p> <p>19 Q. Well, I thought you just said that part</p> <p>20 of the 300 million was new grants?</p> <p>21 <b>A. Yeah, part of it was new grants that</b></p> <p>22 <b>were renewed.</b></p> <p>23 Q. Yeah. And then part of it was --</p> <p>24 MR. STEWART: Well, hold on. He didn't</p> <p>25 finish his answer.</p>

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<p style="text-align: right;">Page 277</p> <p>1 MALHOTRA</p> <p>2 THE WITNESS: Part of it was new grants</p> <p>3 that were renewed, and then there were some</p> <p>4 new grants, like for the hardest-hit funds,</p> <p>5 for -- which were incremental revenues that</p> <p>6 the City was getting.</p> <p>7 BY MR. SMITH:</p> <p>8 Q. And --</p> <p>9 <b>A. Or assumption.</b></p> <p>10 Q. And my question is, since you started</p> <p>11 your forecast, the City has received incremental</p> <p>12 grant revenues that it did not expect to receive</p> <p>13 and were not forecasted to receive. Is that</p> <p>14 correct?</p> <p>15 <b>A. That is correct in the context of the</b></p> <p>16 <b>hardest-hit funds. That assumption was not</b></p> <p>17 <b>included in the earlier version of the forecast.</b></p> <p>18 Q. And there -- are there still some</p> <p>19 hardest-hit funds that haven't been allocated</p> <p>20 beyond the 52 million that the State has in its</p> <p>21 possession?</p> <p>22 <b>A. I'm not sure.</b></p> <p>23 Q. Have you done any investigation into</p> <p>24 potential grants, incremental grant revenue that's</p> <p>25 not already included in your forecast that the</p>	<p style="text-align: right;">Page 279</p> <p>1 MALHOTRA</p> <p>2 <b>grant. For instance fire and the SAFER grant has</b></p> <p>3 <b>its own unique set of requirements, and the same</b></p> <p>4 <b>thing with the police grant.</b></p> <p>5 <b>So I would say it varies.</b></p> <p>6 Q. Are there any people that are typically</p> <p>7 involved in grant work at the City?</p> <p>8 <b>A. There is a grant -- there are several.</b></p> <p>9 <b>I don't want to name any one particular person,</b></p> <p>10 <b>because there are several people, and I think that</b></p> <p>11 <b>that effort is starting to get streamlined better</b></p> <p>12 <b>in terms of the grant management; but there are</b></p> <p>13 <b>still people at different departments that chase</b></p> <p>14 <b>grants specific to their department.</b></p> <p>15 Q. You're not offering any opinion saying</p> <p>16 that the City can't raise taxes; correct?</p> <p>17 <b>A. That's a policy question. The City is</b></p> <p>18 <b>on the highest end, likely, of its comparable tax</b></p> <p>19 <b>rates, but I'm not offering an opinion on changes</b></p> <p>20 <b>in tax policy.</b></p> <p>21 Q. You're not offering any opinion on</p> <p>22 whether the City can pay creditors more money than</p> <p>23 it's planned to pay; correct?</p> <p>24 <b>A. Could you repeat that again, please.</b></p> <p>25 Q. You're not offering any opinion on</p>
<p style="text-align: right;">Page 278</p> <p>1 MALHOTRA</p> <p>2 City may have access to over the next 10 years?</p> <p>3 <b>A. For the grants that we know of</b></p> <p>4 <b>specifically, like SAFER and fire, although they</b></p> <p>5 <b>were being removed from the baseline because we</b></p> <p>6 <b>knew that they were expiring, but I believe those</b></p> <p>7 <b>are the grants that I know of specifically.</b></p> <p>8 <b>But new and incremental grants over and</b></p> <p>9 <b>above what's already in the baseline, I do not</b></p> <p>10 <b>know off the top of my head.</b></p> <p>11 Q. You just haven't done an investigation</p> <p>12 into potential incremental grants?</p> <p>13 <b>A. Right. I mean, the -- we have the grand</b></p> <p>14 <b>bargain that's already highlighted that you</b></p> <p>15 <b>already know about. You know, new grants over and</b></p> <p>16 <b>above all the grant money that's already in the</b></p> <p>17 <b>forecast, we have not done an investigation on</b></p> <p>18 <b>that.</b></p> <p>19 Q. Who at the City is the person -- or are</p> <p>20 there multiple people that are responsible for</p> <p>21 interacting with the state or federal government</p> <p>22 to get grants?</p> <p>23 <b>A. There are many people, because they are</b></p> <p>24 <b>different grant writers in specific departments</b></p> <p>25 <b>because they are chasing a particular type of</b></p>	<p style="text-align: right;">Page 280</p> <p>1 MALHOTRA</p> <p>2 whether or not the City can pay creditors more</p> <p>3 money than it's planned to pay under the plan?</p> <p>4 <b>A. I am saying that the assumptions that</b></p> <p>5 <b>are in the forecast are reasonable based on which</b></p> <p>6 <b>the moneys that are available to spend are</b></p> <p>7 <b>distributed to creditors have been calculated.</b></p> <p>8 Q. Okay. In your -- in your scenario that</p> <p>9 you've done. But you're not offering any opinion</p> <p>10 about whether you can change the assumptions or do</p> <p>11 other things to pay creditors more money. That's</p> <p>12 not within the scope of your work?</p> <p>13 <b>A. No. If the assumptions change, those</b></p> <p>14 <b>moneys available for creditors would go up or</b></p> <p>15 <b>down. I'm okay with that, and -- if the</b></p> <p>16 <b>assumptions change. But, you know, the amounts</b></p> <p>17 <b>available to creditors as shown in the projects,</b></p> <p>18 <b>in my view, are reasonable.</b></p> <p>19 Q. Okay. But then the amounts as shown in</p> <p>20 the projections that go to creditors can be</p> <p>21 increased if you change the assumptions; correct?</p> <p>22 <b>A. It depends on what assumptions. I mean,</b></p> <p>23 <b>if you -- and I've said this earlier. If you</b></p> <p>24 <b>change an assumption and you leave everything else</b></p> <p>25 <b>constant, there has to be a change in a result.</b></p>

Pages 277 to 280

<p style="text-align: right;">Page 281</p> <p>1                   <b>MALHOTRA</b></p> <p>2           Q. That's right. And so if you change</p> <p>3 certain of the assumptions in your model, then you</p> <p>4 can increase the amount of money that the</p> <p>5 creditors receive; correct?</p> <p>6           <b>A. I would ask you to be more specific in</b></p> <p>7 <b>terms of what certain assumptions mean.</b></p> <p>8           Q. Okay. We can go back to tax rate</p> <p>9 increases again. I mean, increasing the tax rate</p> <p>10 or the collection rate on taxes. You could</p> <p>11 increase the amount of money available to</p> <p>12 creditors; correct?</p> <p>13           <b>A. It's a twofold question. Increasing tax</b></p> <p>14 <b>rates and if you assume that everything else</b></p> <p>15 <b>remains constant, that more people are actually</b></p> <p>16 <b>going to leave -- because if you increase tax</b></p> <p>17 <b>rates and more people leave, you're not going to</b></p> <p>18 <b>increase revenues.</b></p> <p>19           Q. Okay. Well, we'll assume that you</p> <p>20 increase tax rates and hold everything else</p> <p>21 constant. There will be more money for creditors;</p> <p>22 right?</p> <p>23           <b>A. If there is more money for creditors</b></p> <p>24 <b>under any assumption, there is more money for</b></p> <p>25 <b>creditors.</b></p>	<p style="text-align: right;">Page 283</p> <p>1                   <b>MALHOTRA</b></p> <p>2 differences between forecasted and actual</p> <p>3 results." Correct? That's what your</p> <p>4 representation is.</p> <p>5           <b>A. Yes.</b></p> <p>6           Q. Okay. And so you're not attempting to</p> <p>7 calculate actual results; you're calculating</p> <p>8 forecasted results; correct?</p> <p>9           <b>A. Forecasts are not results. Forecasts</b></p> <p>10 <b>are forecasts. These includes reasonable</b></p> <p>11 <b>projections or reasonable forecasts. So I'm</b></p> <p>12 <b>sorry. I don't understand your question.</b></p> <p>13           Q. You're not trying to calculate actual</p> <p>14 results. It says right here on the front of your</p> <p>15 projections.</p> <p>16           <b>A. That's right, because it's a forecast.</b></p> <p>17 <b>In the future, it will become an actual.</b></p> <p>18           Q. And so you're not trying to calculate</p> <p>19 the actual amount of money that is going to be</p> <p>20 available to pay creditors over the next 10 years?</p> <p>21           <b>A. My answer remains the same as earlier.</b></p> <p>22 <b>This -- the projection show what amounts would be</b></p> <p>23 <b>available for unsecured creditors based on the</b></p> <p>24 <b>forecast as laid out herein. The \$630-odd million</b></p> <p>25 <b>are in Note B that is laid out are the recoveries</b></p>
<p style="text-align: right;">Page 282</p> <p>1                   <b>MALHOTRA</b></p> <p>2           Q. And my only point is you could change</p> <p>3 the assumptions in your model and you can generate</p> <p>4 more money for the creditors; correct?</p> <p>5           <b>A. It depends on what assumptions you</b></p> <p>6 <b>change. And so if you change the assumptions in</b></p> <p>7 <b>the model, the answers will change; that is</b></p> <p>8 <b>correct.</b></p> <p>9           Q. And you're not attempting to calculate</p> <p>10 an actual amount that will be available to</p> <p>11 creditors; correct? Because you're doing a</p> <p>12 forecast; right?</p> <p>13           <b>A. It's a reasonable forecast. So it's, in</b></p> <p>14 <b>my view, the information that we have today.</b></p> <p>15           Q. But you're not trying to calculate</p> <p>16 actual values in your forecast, by definition;</p> <p>17 correct?</p> <p>18           <b>A. I'd like to understand that question</b></p> <p>19 <b>better, because, I mean, we are projecting what</b></p> <p>20 <b>the actual values or recoveries are based on the</b></p> <p>21 <b>plan adjustment with respect to the notes. So I</b></p> <p>22 <b>just want to make sure that I understand the</b></p> <p>23 <b>context of the question.</b></p> <p>24           Q. Okay. Your disclaimer on the front of</p> <p>25 your projections says, "There will usually be</p>	<p style="text-align: right;">Page 284</p> <p>1                   <b>MALHOTRA</b></p> <p>2 <b>under Note B.</b></p> <p>3           <b>And so that is the nominal dollars that</b></p> <p>4 <b>will be paid out under Note B, regardless of the</b></p> <p>5 <b>forecast in some fashion.</b></p> <p>6           THE VIDEOGRAPHER: Excuse me. Go off</p> <p>7 the record? Going off the record at</p> <p>8 4:01 p.m.</p> <p>9           (Discussion off the record.)</p> <p>10           THE VIDEOGRAPHER: Back on the record at</p> <p>11 4:02.</p> <p>12 BY MR. SMITH:</p> <p>13           Q. In the proposal for creditors, do you</p> <p>14 recall that there was a provision in there for</p> <p>15 some notes that could be adjusted if the City</p> <p>16 received additional grant funds for blight</p> <p>17 reduction?</p> <p>18           <b>A. I believe I remember there was</b></p> <p>19 <b>something; but if I could see it, I would get</b></p> <p>20 <b>refreshed. But there was --</b></p> <p>21           MR. SMITH: I only have a couple copies</p> <p>22 of this, unfortunately, but I will label it</p> <p>23 as Exhibit 9. It's Executive Summary of the</p> <p>24 Proposal from Creditors. And if you look at</p> <p>25 Page 59.</p>

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<p style="text-align: right;">Page 285</p> <p>1 MALHOTRA</p> <p>2 Here you go.</p> <p>3 (Exhibit Malhotra-9 was marked for</p> <p>4 identification.)</p> <p>5 BY MR. SMITH:</p> <p>6 Q. Page 59, it talks about blight</p> <p>7 reduction.</p> <p>8 MR. STEWART: I may have two of these.</p> <p>9 MR. SMITH: I'll take one if you've got</p> <p>10 an extra.</p> <p>11 MR. STEWART: Yeah, I do. This doesn't</p> <p>12 have a clip on it.</p> <p>13 MR. SMITH: Okay. I was just going to</p> <p>14 ask about Page 59, that's the only page.</p> <p>15 BY MR. SMITH:</p> <p>16 Q. Do you see where I'm talking about?</p> <p>17 <b>A. Yes, I do.</b></p> <p>18 Q. And you've got -- and there was going to</p> <p>19 be a provision about -- say that there would be an</p> <p>20 amount equal to 75 percent of the general fund</p> <p>21 revenues that would otherwise be spent on blight,</p> <p>22 but for the outside funds, that would be applied</p> <p>23 to reduce the principal amount of the notes.</p> <p>24 Does that refresh your recollection</p> <p>25 about how it was a proposal to give creditors</p>	<p style="text-align: right;">Page 287</p> <p>1 MALHOTRA</p> <p>2 utilized in place of the general fund sums in the</p> <p>3 10-year projections in amount equal to 75 percent</p> <p>4 of the general fund revenues that would otherwise</p> <p>5 be spent on blight, but for the outside funds,</p> <p>6 shall be applied to reduce the principal amount of</p> <p>7 the notes.</p> <p>8 Do you see that?</p> <p>9 <b>A. I do. That's what it says, yes.</b></p> <p>10 Q. And so the City contemplates that it may</p> <p>11 have additional grant moneys available from the</p> <p>12 federal government, the state government, or</p> <p>13 nonprofit entities to engage in blight reduction</p> <p>14 efforts over the 10-year period; correct?</p> <p>15 <b>A. This was over and above the \$500 million</b></p> <p>16 <b>estimate that was included for blight removal in</b></p> <p>17 <b>this particular proposal. The City was</b></p> <p>18 <b>contemplating how, if more than -- after spending</b></p> <p>19 <b>\$500 million, if additional funds were being made</b></p> <p>20 <b>available or during -- to help fund that</b></p> <p>21 <b>\$500 million, how some of those proceeds could be</b></p> <p>22 <b>shared.</b></p> <p>23 Q. And certainly the City recognizes that</p> <p>24 in the next 10 years, it may receive additional</p> <p>25 moneys from the federal, state governments, or</p>
<p style="text-align: right;">Page 286</p> <p>1 MALHOTRA</p> <p>2 these notes where they could potentially get</p> <p>3 reimbursed if there were additional funds for</p> <p>4 blight that came into the City?</p> <p>5 <b>A. I thought the 75 percent was asset</b></p> <p>6 <b>sales -- I think the 75 percent was related to</b></p> <p>7 <b>asset disposition proceeds.</b></p> <p>8 Q. I'm looking at the paragraph above that.</p> <p>9 There's two paragraphs here.</p> <p>10 <b>A. Okay.</b></p> <p>11 Q. The first one is grants and other -- I'm</p> <p>12 looking at the second paragraph on the page. It</p> <p>13 says, "Grants and other amounts received to offset</p> <p>14 costs of addressing blight."</p> <p>15 Do you see that where I'm at?</p> <p>16 <b>A. Yes, and I do now. Thank you.</b></p> <p>17 Q. And the City was provided -- [reading]:</p> <p>18 If the City receives any cash grants or other</p> <p>19 payments after the effective date and before the</p> <p>20 maturity date from the State of Michigan, the</p> <p>21 federal government, or any other government or</p> <p>22 nonprofit entity not affiliated in any way with</p> <p>23 the City for the purpose of funding programs or</p> <p>24 activities to address blight that are included in</p> <p>25 the 10 Year plan, blight revenues, and that can be</p>	<p style="text-align: right;">Page 288</p> <p>1 MALHOTRA</p> <p>2 nonprofit entities to engage in blight reduction;</p> <p>3 correct?</p> <p>4 <b>A. No, because it could be increases for</b></p> <p>5 <b>certain -- I do not know other revenues that are</b></p> <p>6 <b>coming through to the City for blight remediation,</b></p> <p>7 <b>and if something happens, we have to look at the</b></p> <p>8 <b>overall construct if any other funding is being</b></p> <p>9 <b>taken away.</b></p> <p>10 Q. Yeah. My point here is only that the</p> <p>11 City recognizes that there could be new grants</p> <p>12 from the federal government, state government, or</p> <p>13 nonprofit entities for blight rejection -- blight</p> <p>14 reduction that it will receive in the next 10</p> <p>15 years; correct?</p> <p>16 <b>A. That's what the City proposed in</b></p> <p>17 <b>June 2013, which is evident in the \$52 million in</b></p> <p>18 <b>hardest-hit funds that the City has --</b></p> <p>19 Q. That would be one example, but the City</p> <p>20 also contemplated it might get money other from</p> <p>21 other sources; correct?</p> <p>22 <b>A. Not that I know of.</b></p> <p>23 Q. Well, nonprofit entities; right? It</p> <p>24 contemplated that it might get money for blight</p> <p>25 reduction from nonprofit entities?</p>

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<p style="text-align: right;">Page 289</p> <p>1 MALHOTRA</p> <p>2 <b>A. Well, the City has a grand bargain that</b></p> <p>3 <b>is existing with the City's ability to fund its</b></p> <p>4 <b>reinvestment program because the grand bargain</b></p> <p>5 <b>moneys are coming into the pension.</b></p> <p>6 Q. Okay. So even in the months since this</p> <p>7 creditor proposal, the City has already received</p> <p>8 tens of millions of dollars in money that it</p> <p>9 didn't realize it would receive from various</p> <p>10 sources; correct?</p> <p>11 <b>A. The \$52 million of funds that were for</b></p> <p>12 <b>hardest-hit funds were not contemplated in the</b></p> <p>13 <b>June 2013 proposal for blight.</b></p> <p>14 Q. And then additional revenue from the</p> <p>15 grand bargain wasn't contemplated in the creditor</p> <p>16 proposal?</p> <p>17 <b>A. That is correct.</b></p> <p>18 Q. And so I mean, in less than a year, the</p> <p>19 City has been able to generate significant</p> <p>20 additional revenues from sources that it did not</p> <p>21 expect to receive back in June of 2013; correct?</p> <p>22 <b>A. No. I don't think it's the City -- I</b></p> <p>23 <b>mean, when you look at the grand bargain in terms</b></p> <p>24 <b>of it's a very specific use that it's being</b></p> <p>25 <b>directed towards. So it's not that the City has</b></p>	<p style="text-align: right;">Page 291</p> <p>1 MALHOTRA</p> <p>2 <b>A. It's been in this -- it's been during</b></p> <p>3 <b>the last year. We did not anticipate that</b></p> <p>4 <b>\$50 million of blight remediation that have come</b></p> <p>5 <b>through, thanks to the federal government and how</b></p> <p>6 <b>it comes through the state. So but those are --</b></p> <p>7 <b>they could be considered one-time items and were</b></p> <p>8 <b>not expected in the June 2013 proposal.</b></p> <p>9 Q. Okay. The forecasts that are included</p> <p>10 in the June 2013 proposal, are those, given what</p> <p>11 we now know, materially inaccurate?</p> <p>12 <b>A. I don't know what you define as</b></p> <p>13 <b>"materially inaccurate."</b></p> <p>14 Q. Why don't you use your own definition of</p> <p>15 "materially inaccurate."</p> <p>16 MR. STEWART: Objection.</p> <p>17 THE WITNESS: Well, I can explain</p> <p>18 changes have been made since the June 2013</p> <p>19 proposal. I mean, based on the income taxes</p> <p>20 and the property taxes information or we can</p> <p>21 go line item by line item to bridge what has</p> <p>22 changed.</p> <p>23 So I do not know the definition of</p> <p>24 "materially inaccurate."</p> <p>25 BY MR. SMITH:</p>
<p style="text-align: right;">Page 290</p> <p>1 MALHOTRA</p> <p>2 <b>just, you know, gotten an extra \$800 million for</b></p> <p>3 <b>its general fund. So . . .</b></p> <p>4 Q. But there are unpredicted receipt of</p> <p>5 tens of millions of dollars in revenue that have</p> <p>6 occurred for the City between June 2013 and the</p> <p>7 present; correct?</p> <p>8 <b>A. Could you repeat that question, please.</b></p> <p>9 Q. The City is -- in the last year the City</p> <p>10 has received tens of millions of dollars in</p> <p>11 unanticipated revenue from various sources;</p> <p>12 correct?</p> <p>13 <b>A. Let me being specific. The grand</b></p> <p>14 <b>bargain was not contemplated in June 2013. The</b></p> <p>15 <b>uses of the grand bargain, in terms of the money</b></p> <p>16 <b>being spent, were not contemplated in June 2013.</b></p> <p>17 <b>The City has received revenues, but the</b></p> <p>18 <b>City has also now got expenses. For the</b></p> <p>19 <b>hardest-hit funds, those are new moneys that the</b></p> <p>20 <b>City has received in order to help assist the</b></p> <p>21 <b>funding of its blight remediation.</b></p> <p>22 Q. Okay. I mean, just in the -- within a</p> <p>23 few months, the City received more than</p> <p>24 \$50 million it didn't anticipate to fund blight</p> <p>25 remediation; correct?</p>	<p style="text-align: right;">Page 292</p> <p>1 MALHOTRA</p> <p>2 Q. You can't provide me with a definition</p> <p>3 of "materially inaccurate"; correct?</p> <p>4 <b>A. I'm sorry. Can you ask me that again?</b></p> <p>5 Q. Can you provide me a definition of</p> <p>6 "materially inaccurate" that you would use? Yes</p> <p>7 or no.</p> <p>8 <b>A. No, I don't know what the context</b></p> <p>9 <b>"materially inaccurate" is. I mean, so I can't</b></p> <p>10 <b>provide a definition of materially inaccurate.</b></p> <p>11 Q. Can you provide me a definition of</p> <p>12 "scientifically reliable"?</p> <p>13 <b>A. No, I cannot. I can provide you with an</b></p> <p>14 <b>understanding of what the changes are in the</b></p> <p>15 <b>assumptions, but "materially inaccurate" or</b></p> <p>16 <b>"scientifically reliable," I can't put that into</b></p> <p>17 <b>context.</b></p> <p>18 Q. Can you tell me what, in your view --</p> <p>19 well, you're aware that the Department of</p> <p>20 Transportation brings in hundreds of millions of</p> <p>21 dollars each year; correct?</p> <p>22 <b>A. In terms of revenues?</b></p> <p>23 Q. Yes.</p> <p>24 <b>A. Somewhere between 100 and \$150 million</b></p> <p>25 <b>or up to \$200 million. So I don't know if it's</b></p>

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<p style="text-align: right;">Page 293</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>hundreds and hundreds of millions.</b></p> <p>3 Q. Are you aware that the Department of</p> <p>4 Transportation have saved approximately 40 million</p> <p>5 by doing scheduling changes?</p> <p>6 <b>A. Over what time frame?</b></p> <p>7 Q. I don't know. Over whatever the time</p> <p>8 frame was that ---over a year.</p> <p>9 <b>A. I don't know if I can say that.</b></p> <p>10 Q. Do you know -- I mean, can you tell me</p> <p>11 what changes the Department of Revenue -- I mean,</p> <p>12 Department of Transportation has made in the last</p> <p>13 year to either increase revenues or decrease</p> <p>14 costs?</p> <p>15 <b>A. I think the -- in the last 18 months,</b></p> <p>16 <b>they reduced the amount of service that was on the</b></p> <p>17 <b>roads in order to reduce the level of subsidy.</b></p> <p>18 Q. And who directed the Department of</p> <p>19 Transportation to do that?</p> <p>20 <b>A. I don't remember if this was during the</b></p> <p>21 <b>time of Mayor Bing and his administration in order</b></p> <p>22 <b>to reduce some of that overall subsidy level or</b></p> <p>23 <b>Chris Brown, who was the former chief operating</b></p> <p>24 <b>officer.</b></p> <p>25 Q. And are you aware that the City believes</p>	<p style="text-align: right;">Page 295</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>self-insured, there can be lumpiness in terms of</b></p> <p>3 <b>claims in particular years. And so it's hard to</b></p> <p>4 <b>draw just a straight line, because one-off claims</b></p> <p>5 <b>that are extremely expensive can throw those</b></p> <p>6 <b>averages off.</b></p> <p>7 Q. Do you know whether -- if the City has</p> <p>8 considered other initiatives that are not</p> <p>9 reflected in the Conway MacKenzie report or the</p> <p>10 reinvestment plan?</p> <p>11 <b>A. Other initiatives to --</b></p> <p>12 Q. To increase revenues or decrease costs.</p> <p>13 <b>A. Yes. I do not know the specifics, but</b></p> <p>14 <b>I've -- they always continue to be new initiatives</b></p> <p>15 <b>or new expenses that are developed. But I don't</b></p> <p>16 <b>know of any specific new initiatives over and</b></p> <p>17 <b>above the ones that have been mentioned in the</b></p> <p>18 <b>Conway MacKenzie information. They may be</b></p> <p>19 <b>replacements that, you know, one doesn't happen;</b></p> <p>20 <b>the other one may happen. But I don't know of</b></p> <p>21 <b>incremental initiatives.</b></p> <p>22 Q. Well, so there is some replacement</p> <p>23 initiatives that have been developed to replace</p> <p>24 the initiatives in the reinvestment plan; is that</p> <p>25 accurate?</p>
<p style="text-align: right;">Page 294</p> <p>1 <b>MALHOTRA</b></p> <p>2 that many of the workers' compensation claims that</p> <p>3 are filed against it are meritless?</p> <p>4 <b>A. I do not know whether they were all --</b></p> <p>5 <b>many of them are meritless or not, but I know the</b></p> <p>6 <b>City is undertaking initiatives to further control</b></p> <p>7 <b>its workers' comp changes.</b></p> <p>8 Q. Okay. And do you know how your forecast</p> <p>9 takes into account the City's initiatives to</p> <p>10 reduce workers' compensation costs?</p> <p>11 <b>A. The workers' compensation costs are</b></p> <p>12 <b>generally based on the most recent trend in terms</b></p> <p>13 <b>of what the City has been spending. So, yeah,</b></p> <p>14 <b>that -- that is what I know.</b></p> <p>15 Q. I mean, do you know whether you've</p> <p>16 incorporated in your forecasts any reduction in</p> <p>17 workers' compensation costs attributable to the</p> <p>18 City efforts over the next 10 years to reduce</p> <p>19 costs?</p> <p>20 <b>A. I believe that would be a question for</b></p> <p>21 <b>Conway MacKenzie.</b></p> <p>22 Q. You just don't know one way or the other</p> <p>23 sitting here?</p> <p>24 <b>A. Yeah. And the reason for that is</b></p> <p>25 <b>workers' comp claims, since the City is</b></p>	<p style="text-align: right;">Page 296</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. I wouldn't say they have been developed.</b></p> <p>3 <b>But there always is -- because these investment</b></p> <p>4 <b>initiatives require money, there always is a</b></p> <p>5 <b>renewed effort to make sure that all of the</b></p> <p>6 <b>expenses and the revenues match up with respect to</b></p> <p>7 <b>the initiatives. John Hill can probably talk to</b></p> <p>8 <b>this much better.</b></p> <p>9 Q. Would it be fair to say that the</p> <p>10 restructuring and reinvestment initiatives are not</p> <p>11 static, but rather are -- they're dynamic and can</p> <p>12 change over time?</p> <p>13 <b>A. Yes, they could change over time in</b></p> <p>14 <b>terms of the components and the mix overall, yes.</b></p> <p>15 Q. And is John Hill the person to ask about</p> <p>16 that, or is that a question for Conway MacKenzie?</p> <p>17 Or who's the --</p> <p>18 <b>A. Probably both.</b></p> <p>19 Q. Or every City witness that happens to</p> <p>20 show up for a deposition.</p> <p>21 Are there any initiatives that you're</p> <p>22 aware of to increase revenues or decreased costs</p> <p>23 that the City has rejected?</p> <p>24 <b>A. We talked -- I don't think the City has</b></p> <p>25 <b>ever rejected looking at any considerations to</b></p>

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<p style="text-align: right;">Page 297</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>increase revenues or reduce costs as long as they</b></p> <p>3 <b>can be feasible and reasonable. In my view -- and</b></p> <p>4 <b>it's not -- things that are not just rejected. I</b></p> <p>5 <b>mean, the City is always looking to improve the</b></p> <p>6 <b>operations.</b></p> <p>7 Q. Okay. So in your experience the -- you</p> <p>8 anticipate that the City, going forward, will</p> <p>9 continue to look for new opportunities to increase</p> <p>10 revenues and reduce costs?</p> <p>11 <b>A. In my view, the City would do its best</b></p> <p>12 <b>to try and at least recognize and accomplish the</b></p> <p>13 <b>revenue initiatives, which are quite a few, that</b></p> <p>14 <b>have already been incorporated into the plan to</b></p> <p>15 <b>achieve its plan of adjustment.</b></p> <p>16 Q. But you would expect that, going forward</p> <p>17 during the next 10 years, the City will look to</p> <p>18 develop other initiatives in addition to the</p> <p>19 reinvestment initiatives that could increase</p> <p>20 revenue or decrease cost. It just won't stop</p> <p>21 doing that; right?</p> <p>22 <b>A. No. I think the City will continue to</b></p> <p>23 <b>focus its -- my belief is, is that the City will</b></p> <p>24 <b>continue to try its hardest to ensure that the</b></p> <p>25 <b>revenue initiatives that are in the plan are met</b></p>	<p style="text-align: right;">Page 299</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>You were laughing.</b></p> <p>3 Q. No, go ahead.</p> <p>4 <b>A. Those revenue initiatives could replace</b></p> <p>5 <b>the revenue estimates or initiatives that are</b></p> <p>6 <b>already in the forecast.</b></p> <p>7 Q. Okay. But your analysis assumes that</p> <p>8 there won't be any new revenue initiatives or</p> <p>9 cost-reduction initiatives that increase revenues</p> <p>10 or decrease costs above and beyond the current</p> <p>11 forecast; correct?</p> <p>12 <b>A. No. They could continue to work on</b></p> <p>13 <b>initiatives to even accomplish what is in the</b></p> <p>14 <b>current forecast. But it could come through other</b></p> <p>15 <b>initiatives versus new initiatives. If you're --</b></p> <p>16 <b>so my question -- answer is the same as earlier.</b></p> <p>17 Q. Yeah, you're not getting my question.</p> <p>18 <b>A. Sorry. Okay. If you could please</b></p> <p>19 <b>rephrase it, then.</b></p> <p>20 Q. One of the assumptions is that the</p> <p>21 introduction -- one of the assumptions that you're</p> <p>22 making is there will be -- there will be no new</p> <p>23 initiatives that increase revenue above your</p> <p>24 forecasted amounts during the 10-year period;</p> <p>25 correct?</p>
<p style="text-align: right;">Page 298</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>and the significant costs assumptions that are in</b></p> <p>3 <b>the plan are not exceeded.</b></p> <p>4 Q. Okay. One of the assumptions in your</p> <p>5 forecasts for the next 10 and 40 years, the City</p> <p>6 will not embark on any new initiatives to increase</p> <p>7 revenues further or decrease costs; correct?</p> <p>8 <b>A. Can you run that by me again, please?</b></p> <p>9 Q. Okay. One of the assumptions in your</p> <p>10 forecast is that during the next 10 and 40 years,</p> <p>11 the City won't implement initiatives to increase</p> <p>12 revenues or decrease costs above and beyond the</p> <p>13 reinvestment initiatives; correct?</p> <p>14 <b>A. I just want to be specific. Like, for</b></p> <p>15 <b>instance, asset sales, like of parking or water</b></p> <p>16 <b>and sewer, are not included in this forecast. So</b></p> <p>17 <b>if the City continues to embark upon an asset</b></p> <p>18 <b>sales program, those could be additive to what's</b></p> <p>19 <b>mentioned, what's highlighted in the assumptions</b></p> <p>20 <b>here.</b></p> <p>21 Q. And as a general matter, any new revenue</p> <p>22 initiatives or cost-reduction initiatives in the</p> <p>23 next 10 or 40 years would have to be added on to</p> <p>24 your projections; correct?</p> <p>25 <b>A. No. It could -- I'm sorry. Go ahead.</b></p>	<p style="text-align: right;">Page 300</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>MR. STEWART: Objection.</b></p> <p>3 <b>THE WITNESS: I apologize. I'm still</b></p> <p>4 <b>not getting your question.</b></p> <p>5 <b>BY MR. SMITH:</b></p> <p>6 Q. Okay.</p> <p>7 <b>A. If you could rephrase it, it might make</b></p> <p>8 <b>it easier for me.</b></p> <p>9 Q. One of your assumptions is that new</p> <p>10 initiatives -- new initiatives developed within</p> <p>11 the next 10 years will not increase revenue above</p> <p>12 your projections; correct?</p> <p>13 <b>A. No, that's not correct.</b></p> <p>14 Q. Okay. How does -- so you agree that</p> <p>15 revenue may be increased above your projections in</p> <p>16 the next 10 years?</p> <p>17 <b>A. No, I did not say that. I am saying</b></p> <p>18 <b>that revenue initiatives are based on the plan.</b></p> <p>19 <b>Doesn't mean the City stops working towards new</b></p> <p>20 <b>initiatives. The City could work towards new</b></p> <p>21 <b>initiatives. That could -- those could replace or</b></p> <p>22 <b>augment the existing -- the existing initiatives</b></p> <p>23 <b>that are already in the plan.</b></p> <p>24 <b>I can't say with -- in a definitive</b></p> <p>25 <b>manner that new initiatives will be incremental to</b></p>

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<p style="text-align: right;">Page 301</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>what's in the plan or not.</b></p> <p>3       Q.   Okay. So you agree that new initiatives</p> <p>4   may increase revenues above what you've projected?</p> <p>5       <b>A. So as I've said this -- now I'm getting</b></p> <p>6   <b>tired. So . . .</b></p> <p>7           <b>If you change the assumptions and you</b></p> <p>8   <b>leave everything else the same, if you add more</b></p> <p>9   <b>revenue, it will result in a different answer.</b></p> <p>10       Q.   I mean, and your example of asset sales</p> <p>11   is kind of what I'm getting at, but it's not just</p> <p>12   the privatizations. I'm trying to get at a more</p> <p>13   general point. If there are new estate sales that</p> <p>14   could -- you're assuming there won't be new asset</p> <p>15   sales above what -- what you've already assumed in</p> <p>16   the plan; correct?</p> <p>17       <b>A. That is correct.</b></p> <p>18       Q.   Okay. And so, more generally, you're</p> <p>19   assuming there won't be new initiatives that</p> <p>20   increase revenue above what you've projected in</p> <p>21   the forecast currently; correct?</p> <p>22           MR. STEWART: Objection.</p> <p>23           THE WITNESS: Same question you've asked</p> <p>24   me earlier, and my response remains the same</p> <p>25   as earlier.</p>	<p style="text-align: right;">Page 303</p> <p>1                   <b>MALHOTRA</b></p> <p>2   same question again and again and he's given</p> <p>3   you the answer. You're not allowed to keep</p> <p>4   doing that. I haven't objected to --</p> <p>5           MR. SMITH: So you're saying I can't ask</p> <p>6   the question.</p> <p>7           (Simultaneous cross-talk.)</p> <p>8           MR. STEWART: It is really abuse.</p> <p>9           MR. SMITH: It's not abusive.</p> <p>10          MR. STEWART: It is abusive, and it's</p> <p>11   improper.</p> <p>12          MR. SMITH: So you're saying --</p> <p>13          MR. STEWART: You've asked this five</p> <p>14   times, six times. Just let's find the</p> <p>15   answer. We're going to reread it.</p> <p>16          And when you reread it, Madam</p> <p>17   Reporter --</p> <p>18          MR. SMITH: Let's go off the record.</p> <p>19          MR. STEWART: -- retype it into the</p> <p>20   record.</p> <p>21          MR. SMITH: Let's go off the record, and</p> <p>22   you can have her look off the record. But</p> <p>23   it's not going to count on my time.</p> <p>24          MR. STEWART: Okay. Then ask your next</p> <p>25   question.</p>
<p style="text-align: right;">Page 302</p> <p>1                   <b>MALHOTRA</b></p> <p>2   BY MR. SMITH:</p> <p>3       Q.   Okay. And what was the response?</p> <p>4           MR. STEWART: It's in the record. He's</p> <p>5   not going to repeat -- you've asked him this,</p> <p>6   I believe.</p> <p>7           MR. SMITH: No, I think he has answered.</p> <p>8           MR. STEWART: Well, I'm going to ask the</p> <p>9   reporter to find the question and read his</p> <p>10   answer. If you want to repeat it, this will</p> <p>11   come from the record. It's not --</p> <p>12          MR. SMITH: So you're directing him not</p> <p>13   to answer.</p> <p>14          MR. STEWART: No, I'm directing --</p> <p>15          MR. SMITH: I just want to --</p> <p>16          MR. STEWART: Please don't interrupt. I</p> <p>17   don't interrupt you.</p> <p>18          MR. SMITH: Yes, you do.</p> <p>19          MR. STEWART: Please don't interrupt me.</p> <p>20          I'd like the reporter to find that</p> <p>21   question before and reread the answer since</p> <p>22   he has said -- and he is right --</p> <p>23          MR. SMITH: Are you directing him not to</p> <p>24   answer the question?</p> <p>25          MR. STEWART: -- that you have asked the</p>	<p style="text-align: right;">Page 304</p> <p>1                   <b>MALHOTRA</b></p> <p>2           MR. SMITH: Are you directing him not to</p> <p>3   answer the question --</p> <p>4           MR. STEWART: He just answered the</p> <p>5   question.</p> <p>6           MR. SMITH: He didn't answer.</p> <p>7           MR. STEWART: Yes, he did.</p> <p>8           Reread his last answer.</p> <p>9           MR. SMITH: His answer was "I've already</p> <p>10   answered."</p> <p>11          MR. STEWART: That was his answer.</p> <p>12          MR. SMITH: Okay.</p> <p>13   BY MR. SMITH:</p> <p>14       Q.   Your forecast doesn't include revenue</p> <p>15   initiatives different from those that are in the</p> <p>16   reinvestment plan; correct?</p> <p>17       <b>A. That is correct.</b></p> <p>18       Q.   Okay. And so your plan is essentially</p> <p>19   assuming that the revenue initiatives that are in</p> <p>20   the reinvestment plan will continue for 10 years;</p> <p>21   correct?</p> <p>22       <b>A. Yes. In fact, for 40 years.</b></p> <p>23       Q.   Yeah. And so you're assuming that there</p> <p>24   won't be new revenue initiatives different from</p> <p>25   those in the plan for the next 40 years; correct?</p>

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<p style="text-align: right;">Page 305</p> <p>1 MALHOTRA</p> <p>2 <b>A. No.</b></p> <p>3 Q. So there could be new initiatives that</p> <p>4 increase revenues above your projections; correct?</p> <p>5 <b>A. If there are new revenues and everything</b></p> <p>6 <b>else remains the same, everything else remains the</b></p> <p>7 <b>same, it would be new increment -- if there's new</b></p> <p>8 <b>incremental revenues, the data would be different.</b></p> <p>9 <b>What I'm trying to say is the City --</b></p> <p>10 <b>when you say the new initiatives will result in</b></p> <p>11 <b>new revenues, that's not correct. That's because</b></p> <p>12 <b>new initiatives may further augment and support</b></p> <p>13 <b>the initiatives that are already in here to get</b></p> <p>14 <b>the revenue that the City is projecting. It's not</b></p> <p>15 <b>just newfound incremental revenue.</b></p> <p>16 Q. And my point is you're assuming that</p> <p>17 there won't be new initiatives that provide</p> <p>18 incremental revenue; correct?</p> <p>19 <b>A. My point -- my point is that the</b></p> <p>20 <b>assumptions that are in here reflect the</b></p> <p>21 <b>initiatives that are in here. If everything else</b></p> <p>22 <b>remains the same and all you do is you say that</b></p> <p>23 <b>let's assume there is a new revenue item, that</b></p> <p>24 <b>would be a new assumption; that will result in</b></p> <p>25 <b>more revenue, assuming all the other initiatives</b></p>	<p style="text-align: right;">Page 307</p> <p>1 MALHOTRA</p> <p>2 correct?</p> <p>3 <b>A. It depends on if all the other items</b></p> <p>4 <b>remain the same and the City achieves all of its</b></p> <p>5 <b>revenue estimates already and if there is a new</b></p> <p>6 <b>initiative on top of that. So everything else has</b></p> <p>7 <b>to remain the same in order for that statement to</b></p> <p>8 <b>be correct.</b></p> <p>9 <b>So that's the only way I can answer it,</b></p> <p>10 <b>is you're asking if there's going to be a new</b></p> <p>11 <b>revenue initiative to increase more revenues; and</b></p> <p>12 <b>my answer is, no, not necessarily, because new</b></p> <p>13 <b>initiatives could replace existing initiatives and</b></p> <p>14 <b>still yield the same amount of revenue.</b></p> <p>15 Q. And I'm -- you're -- one of the</p> <p>16 assumptions in your model is new initiatives won't</p> <p>17 yield additional revenue over the next 10 or 40</p> <p>18 years; correct?</p> <p>19 MR. STEWART: Objection.</p> <p>20 THE WITNESS: I've said no to that --</p> <p>21 I've said no to that.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. I guess I'm trying to figure out how you</p> <p>24 can say no to that.</p> <p>25 <b>A. Well, if you --</b></p>
<p style="text-align: right;">Page 306</p> <p>1 MALHOTRA</p> <p>2 <b>and all the other assumptions are exactly the same</b></p> <p>3 <b>and the City has already accomplished the revenue</b></p> <p>4 <b>items that are laid out in its investment plan.</b></p> <p>5 Q. So you are assuming that there won't be</p> <p>6 new revenue initiatives that augment the revenue</p> <p>7 above and beyond what you've projected; correct?</p> <p>8 <b>A. We have not assumed any asset sales from</b></p> <p>9 <b>DWSD and public parking in these projections. If</b></p> <p>10 <b>that is what you're referring to, that is correct,</b></p> <p>11 <b>if you are not referring to those discrete asset</b></p> <p>12 <b>sales in these projections.</b></p> <p>13 Q. And there are other initiatives other</p> <p>14 than those two that the City might develop in the</p> <p>15 next 10 or 40 years that could lead to incremental</p> <p>16 revenues; correct?</p> <p>17 MR. STEWART: Objection; asked and</p> <p>18 answered.</p> <p>19 THE WITNESS: Could you repeat that</p> <p>20 again, please.</p> <p>21 BY MR. SMITH:</p> <p>22 Q. There are other initiatives other than</p> <p>23 the parking and the DWSD that you mentioned that</p> <p>24 could -- the City might develop within the next 10</p> <p>25 or 40 years that could add incremental revenues;</p>	<p style="text-align: right;">Page 308</p> <p>1 MALHOTRA</p> <p>2 MR. STEWART: That's not a question.</p> <p>3 MR. SMITH: Yes, I --</p> <p>4 MR. STEWART: No, it isn't. That's not</p> <p>5 a question.</p> <p>6 MR. SMITH: Stop interrupting. You</p> <p>7 really are obstructing the deposition --</p> <p>8 MR. STEWART: Let's call the judge.</p> <p>9 MR. SMITH: -- and smirking.</p> <p>10 MR. STEWART: Let's call the judge.</p> <p>11 MR. SMITH: You're just --</p> <p>12 MR. STEWART: Let's get him on the</p> <p>13 phone. I'm going to have the reporter read</p> <p>14 these questions. And I'm going to move for</p> <p>15 sanctions against you.</p> <p>16 MR. SMITH: Okay. Let's --</p> <p>17 MR. STEWART: You keep pushing and</p> <p>18 you'll wish you hadn't.</p> <p>19 MR. SMITH: There's no basis.</p> <p>20 MR. STEWART: You wait. You just wait.</p> <p>21 Now, what's your next question?</p> <p>22 BY MR. SMITH:</p> <p>23 Q. The City could get new grants that add</p> <p>24 incremental money in the next 10 or 40 years;</p> <p>25 correct?</p>

Pages 305 to 308

1 MALHOTRA  
 2 **A. It depends if the City has to increase**  
 3 **the expenses in order to get those grant moneys.**  
 4 Q. Okay. The City could get new grants  
 5 that provide more revenue than expenses over the  
 6 next 10 or 40 years; correct?  
 7 **A. That -- if there is a net additional of**  
 8 **overall proceeds and everything else remains the**  
 9 **same, that would result in more proceeds. I mean,**  
 10 **it's -- A, the grants then have to service more**  
 11 **costs, more than the costs that have been**  
 12 **incurred; and, B, everything else has to remain**  
 13 **exactly the same in order for there to be more**  
 14 **money.**  
 15 MR. SMITH: Why don't we take a break.  
 16 THE VIDEOGRAPHER: We are going off the  
 17 record at 4:32.  
 18 (Short break taken.)  
 19 THE VIDEOGRAPHER: We are back on the  
 20 record at 4:39.  
 21 BY MR. SMITH:  
 22 Q. Mr. Malhotra, do you have the disclosure  
 23 statement there in your exhibits?  
 24 **A. Yes, I do.**  
 25 Q. If you look at Page 168.

1 MALHOTRA  
 2 **A. 168 of 197?**  
 3 Q. No, 168 of -- the page number in the  
 4 middle of the page. There is a section entitled  
 5 "Rationalization of Nominal Tax Rates."  
 6 Do you see that?  
 7 **A. I do.**  
 8 Q. And in the middle of the first  
 9 paragraph, there's a sentence that says [reading]:  
 10 The City is considering the possibility of  
 11 lowering selected income and property tax rates to  
 12 levels that are competitive with surrounding  
 13 localities in order to reverse the City's  
 14 population decline, foster job growth and expand  
 15 the overall tax base.  
 16 Do you see that?  
 17 **A. Yes, I do.**  
 18 Q. Does your forecast incorporate tax --  
 19 tax rate reductions?  
 20 **A. No, it does not.**  
 21 Q. Have you had any discussions with the  
 22 City about reducing tax rates?  
 23 **A. We had some discussions with the City on**  
 24 **the impact of lowering tax rates in terms of what**  
 25 **the math would yield, in terms of what the numbers**

1 MALHOTRA  
 2 **would yield, the math would yield.**  
 3 Q. And what was the discussion?  
 4 **A. The hundreds of millions of dollars that**  
 5 **the City would lose in terms of lowering tax**  
 6 **rates.**  
 7 Q. What were the tax rate reductions that  
 8 the City was considering?  
 9 **A. I do not know the City was considering**  
 10 **any specific reductions. These were discussions**  
 11 **or overall scenarios that the City was just -- and**  
 12 **EY were talking about. But, again, these were**  
 13 **policy decisions that we were not involved in.**  
 14 **But we looked at -- sorry. Go ahead.**  
 15 Q. No. Go ahead. Go ahead.  
 16 **A. All I was saying is we looked at what**  
 17 **the, at least the short-term impact would be if**  
 18 **any of the tax rates for the City had to be**  
 19 **lowered further.**  
 20 Q. But you said you were calculating  
 21 hundreds of millions of dollars in revenue losses  
 22 from tax rate reductions. I'm just wondering what  
 23 rates you were looking at when you were doing that  
 24 kind of analysis.  
 25 **A. I do not have that handy, but it would**

1 MALHOTRA  
 2 **be if you were to get the taxes in line with the**  
 3 **suburbs or if you were to, I think, reduce the**  
 4 **2.4 percent income tax rate on city residents down**  
 5 **to 1.2. It was somewhere in that neighborhood.**  
 6 Q. And when was -- were you calculating  
 7 that these tax rate reductions would occur?  
 8 **A. We did not have any specific timeline,**  
 9 **but it was sort of an annualized impact of showing**  
 10 **what the impact would be of the reduced taxes.**  
 11 Q. And when did you do that analysis?  
 12 **A. I would say sometime in the last year**  
 13 **or -- is when we would have looked at it.**  
 14 Q. Who did you interact with with respect  
 15 to that analysis?  
 16 **A. Bob Cline and Kevyn Orr.**  
 17 Q. And why was the City looking at reducing  
 18 tax rates?  
 19 **A. I don't know if the City was looking to.**  
 20 **The City wanted to just have an understanding of**  
 21 **what the magnitude was, because the City, as we've**  
 22 **discussed earlier, is on the higher, if not the**  
 23 **highest, level in terms of what the City's tax**  
 24 **rates are and if that has been a driver of the**  
 25 **ongoing population decline and has resulted in the**

<p style="text-align: right;">Page 313</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>population decline.</b></p> <p>3           <b>And so if the tax rates were lowered, if</b></p> <p>4   <b>the City's position gets more competitive or not,</b></p> <p>5   <b>I think that's sort of the impetus behind looking</b></p> <p>6   <b>at or considering this --</b></p> <p>7           Q. So the tax rate reduction is something</p> <p>8   the City was contemplating would occur after the</p> <p>9   bankruptcy?</p> <p>10          <b>A. No, not that -- A, the City was not</b></p> <p>11   <b>contemplating. The City wanted to understand what</b></p> <p>12   <b>the impact was. I don't think the City was</b></p> <p>13   <b>contemplating anything with respect to a reduced</b></p> <p>14   <b>income tax.</b></p> <p>15          Q. How much time did you spend doing that</p> <p>16   analysis?</p> <p>17          <b>A. I have to go back and look. My guess is</b></p> <p>18   <b>it was a very short discussion. Very, very short.</b></p> <p>19          Q. You didn't do anything -- any analysis</p> <p>20   showing that decreasing property tax rates would</p> <p>21   increase population; correct?</p> <p>22          <b>A. I would have to defer to Bob Cline</b></p> <p>23   <b>whether he looked at any of that or not. But</b></p> <p>24   <b>overall, just the magnitude of lowering any income</b></p> <p>25   <b>taxes for the City was so dramatic that it was a</b></p>	<p style="text-align: right;">Page 315</p> <p>1                   <b>MALHOTRA</b></p> <p>2          <b>A. I have not.</b></p> <p>3          Q. Okay. I wanted to ask you about Page 4.</p> <p>4   You see that it says -- you on Page 4 now?</p> <p>5          <b>A. I am.</b></p> <p>6          Q. Do you see that it says at the top of</p> <p>7   the page, "Since 2006 the district has been faced</p> <p>8   with budgetary and financial challenges"?</p> <p>9          Is that consistent with your</p> <p>10   understanding?</p> <p>11          <b>A. I cannot provide context in 2006.</b></p> <p>12          Q. It says the general fund deficit has</p> <p>13   ranged from as high as 327 million to a low of</p> <p>14   76.5 million.</p> <p>15          Do you see that?</p> <p>16          <b>A. I see that's what it says on this page,</b></p> <p>17   <b>yes.</b></p> <p>18          Q. And then the next paragraph says, "We</p> <p>19   are in line to eliminate the legacy deficit and</p> <p>20   show a positive fund balance by the conclusion of</p> <p>21   the 2017 to '18 fiscal year. There has been</p> <p>22   strong progress."</p> <p>23          Do you see that's the report of the</p> <p>24   public school system?</p> <p>25          <b>A. That's what it says.</b></p>
<p style="text-align: right;">Page 314</p> <p>1                   <b>MALHOTRA</b></p> <p>2   <b>very, very short discussion with Kevyn Orr.</b></p> <p>3          Q. Okay. So the City, based on your</p> <p>4   interaction with them, has concluded that it would</p> <p>5   not be feasible to reduce tax rates, given the</p> <p>6   revenue loss?</p> <p>7          <b>A. I would say that's a policy question. I</b></p> <p>8   <b>can't tell you that there are no assumptions in</b></p> <p>9   <b>the forecast that contemplate a tax reduction in</b></p> <p>10   <b>either the 10 years or the 40 years.</b></p> <p>11          Q. I'm just wondering why it's still in the</p> <p>12   plan that they're talking about that.</p> <p>13          <b>A. Yeah. I do not know actually. That's</b></p> <p>14   <b>something that we can probably look into.</b></p> <p>15          MR. SMITH: Okay. I want to hand you</p> <p>16   what I'll mark as Exhibit 10, which is the</p> <p>17   Detroit Public Schools fiscal year 2015</p> <p>18   proposed budget.</p> <p>19          (Exhibit Malhotra-10 was marked for</p> <p>20   identification.)</p> <p>21   BY MR. SMITH:</p> <p>22          Q. You got that in front of you?</p> <p>23          <b>A. I do.</b></p> <p>24          Q. Have you had a chance to review this</p> <p>25   document at all?</p>	<p style="text-align: right;">Page 316</p> <p>1                   <b>MALHOTRA</b></p> <p>2          Q. And then it goes on to say that the</p> <p>3   Detroit Public Schools has reduced costs by over</p> <p>4   225 million.</p> <p>5          Do you see that?</p> <p>6          <b>A. I see that.</b></p> <p>7          Q. And then it says, "There has been</p> <p>8   substantial financial and operational progress</p> <p>9   confirmed by external reviews as evidenced by this</p> <p>10   past year's action by the United States Department</p> <p>11   of Education to remove the district from high-risk</p> <p>12   status as well as a resolution of 53 million in</p> <p>13   audit findings and a sharp reduction in audit</p> <p>14   findings from 84 to 9."</p> <p>15          Do you see that?</p> <p>16          <b>A. I see that.</b></p> <p>17          Q. I mean, I think you know that the</p> <p>18   Detroit Public Schools has been under the</p> <p>19   supervision of an emergency manager; correct?</p> <p>20          <b>A. That is correct.</b></p> <p>21          Q. And you know that the Detroit Public</p> <p>22   Schools have engaged in millions of dollars of</p> <p>23   cost reductions; correct?</p> <p>24          <b>A. You have to look at cost reductions as</b></p> <p>25   <b>whether they're grant-funded costs or they're not</b></p>

Pages 313 to 316



<p style="text-align: right;">Page 317</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>grant-funded costs. I don't want to comment upon</b></p> <p>3 <b>overall cost reductions for the district.</b></p> <p>4 Q. Do you agree that the Detroit Public</p> <p>5 School System has improved its fiscal situation</p> <p>6 over the last few years?</p> <p>7 <b>A. I thought I answered that earlier.</b></p> <p>8 <b>This is what their report says. But I</b></p> <p>9 <b>am not willing to -- I do not know specifically.</b></p> <p>10 <b>And I do not -- Detroit Public Schools has faced</b></p> <p>11 <b>the same challenge -- has faced similar</b></p> <p>12 <b>challenges, but I do not know if their overall</b></p> <p>13 <b>financial profile is that much better or not.</b></p> <p>14 Q. The Detroit Public Schools, though, you</p> <p>15 recognized and reported that they have improved</p> <p>16 their fiscal situation; correct?</p> <p>17 <b>A. That's what it says on this page. If</b></p> <p>18 <b>you want, I can look at some pages at the numbers</b></p> <p>19 <b>further back that will show that the deficit has</b></p> <p>20 <b>continued to increase at Detroit Public Schools,</b></p> <p>21 <b>which is on Page 23.</b></p> <p>22 Q. Okay. The Detroit Public Schools, you</p> <p>23 say, face similar challenges to the City of</p> <p>24 Detroit; is that correct?</p> <p>25 <b>A. They've faced a reduction in student</b></p>	<p style="text-align: right;">Page 319</p> <p>1 <b>MALHOTRA</b></p> <p>2 practice, in what context?</p> <p>3 <b>A. Well, when I've been in this seat</b></p> <p>4 <b>getting deposed.</b></p> <p>5 Q. Do you have any training programs or</p> <p>6 anything like that for depositions or working as</p> <p>7 an expert witness at Ernst &amp; Young?</p> <p>8 <b>A. I do not know.</b></p> <p>9 MR. SMITH: Why don't we take a break --</p> <p>10 before we take a break, though, and go off</p> <p>11 the record, Geoff, one thing is I wanted to</p> <p>12 just request on the record that those</p> <p>13 documents relating to the five-year</p> <p>14 projections that Mr. Malhotra mentioned be</p> <p>15 produced.</p> <p>16 MR. STEWART: Let me take it under</p> <p>17 advisement. I don't know that they haven't</p> <p>18 already been produced. But we'll -- we'll</p> <p>19 see what we can do.</p> <p>20 MR. SMITH: Okay. Let me just ask one</p> <p>21 or two other questions.</p> <p>22 BY MR. SMITH:</p> <p>23 Q. You don't -- do you recall anything</p> <p>24 about what the methodology was in the five-year</p> <p>25 projections or not, sitting here today?</p>
<p style="text-align: right;">Page 318</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>count. Detroit has faced a reduction in</b></p> <p>3 <b>population. They're sort of related from that</b></p> <p>4 <b>context.</b></p> <p>5 Q. And the City and public schools receive</p> <p>6 revenue from some of the same sources, such as</p> <p>7 property taxes; correct?</p> <p>8 <b>A. Yes, although the schools have a</b></p> <p>9 <b>specific millage associated with it. But, yes,</b></p> <p>10 <b>they are -- they have the same working capital</b></p> <p>11 <b>cycle in terms of when the property taxes are</b></p> <p>12 <b>collected.</b></p> <p>13 Q. Do you have any idea why in-house</p> <p>14 counsel for Ernst &amp; Young is on the phone today?</p> <p>15 MR. STEWART: You can answer that, but</p> <p>16 don't reveal privileged information. In</p> <p>17 other words, nothing you said with the</p> <p>18 lawyer, including in-house counsel, can be</p> <p>19 conveyed in response to the question.</p> <p>20 THE WITNESS: Marg is it on the phone</p> <p>21 with us all the time when it comes to these</p> <p>22 issues. So my guess is it's customary</p> <p>23 practice.</p> <p>24 BY MR. SMITH:</p> <p>25 Q. Right. When you say it's customary</p>	<p style="text-align: right;">Page 320</p> <p>1 <b>MALHOTRA</b></p> <p>2 <b>A. Yeah. They were generally</b></p> <p>3 <b>extrapolations. We did not go into a lot of depth</b></p> <p>4 <b>at that point in time on the five years. They</b></p> <p>5 <b>were general extrapolations. But we started</b></p> <p>6 <b>building -- started building up the -- modeling up</b></p> <p>7 <b>in a much more detailed manner and -- for 10</b></p> <p>8 <b>years. So I do not know of anything specific, but</b></p> <p>9 <b>it was just general extrapolations. They weren't</b></p> <p>10 <b>very detailed.</b></p> <p>11 Q. Were the five-year -- was the five-year</p> <p>12 forecast, was that model the basis for the later</p> <p>13 10-year forecast or was it a different model?</p> <p>14 <b>A. No. The ten-year was a different model,</b></p> <p>15 <b>because we started getting into a lot more detail</b></p> <p>16 <b>in terms of revenue estimates and so on and so</b></p> <p>17 <b>forth that we did not have earlier.</b></p> <p>18 Q. To recall the five-year forecast and</p> <p>19 what was done, would you have to refer back to</p> <p>20 documents relating to the five-year forecast?</p> <p>21 <b>A. Yes, I would.</b></p> <p>22 Q. You can't provide me with any other</p> <p>23 information about it right now?</p> <p>24 <b>A. Not as of now.</b></p> <p>25 MR. SMITH: Thanks. Now we can go off</p>

Pages 317 to 320

<p style="text-align: right;">Page 321</p> <p>1 MALHOTRA</p> <p>2 the record.</p> <p>3 THE VIDEOGRAPHER: Going off the record</p> <p>4 at 4:53.</p> <p>5 (Discussion off the record.)</p> <p>6 THE VIDEOGRAPHER: Back on the record at</p> <p>7 4:55.</p> <p>8 EXAMINATION</p> <p>9 BY MS. DiBLASI:</p> <p>10 Q. Good afternoon, Mr. Malhotra. My name</p> <p>11 is Kelly DiBlasi. I'm an attorney for FGIC, and I</p> <p>12 just have some follow-up questions for you.</p> <p>13 Your 10- and 40-year projections were</p> <p>14 calculated using claim amounts for the PFRS and</p> <p>15 GRS that are set forth in the plan of adjustment;</p> <p>16 correct?</p> <p>17 <b>A. Yes. For what, PFRS OPEB or PFRS</b></p> <p>18 <b>pension?</b></p> <p>19 Q. Pension.</p> <p>20 <b>A. Yes. The amounts are laid out in the</b></p> <p>21 <b>plan of adjustment, and they're based on</b></p> <p>22 <b>information we received from Milliman.</b></p> <p>23 Q. A portion of the funds to be distributed</p> <p>24 to holders of PFRS pension claims and GRS pension</p> <p>25 claims comes from the foundations, the DIA Corp.</p>	<p style="text-align: right;">Page 323</p> <p>1 MALHOTRA</p> <p>2 forward?</p> <p>3 <b>A. They're based on what the estimated of</b></p> <p>4 <b>the UAAL is at 2023, yes.</b></p> <p>5 Q. And is it correct that the -- the City's</p> <p>6 contributions to these pension claimants is based</p> <p>7 on the amount that's necessary to provide those</p> <p>8 claimants with the adjusted pension amounts set</p> <p>9 forth in the Chapter 9 plan?</p> <p>10 <b>A. You have to repeat that question.</b></p> <p>11 Q. Is it correct that the City's</p> <p>12 contributions to the pension claimants are based</p> <p>13 on the amount that would be necessary to provide</p> <p>14 them with the adjusted pension amounts set forth</p> <p>15 in the plan?</p> <p>16 <b>A. Over the first 10 years, the amount of</b></p> <p>17 <b>contributions that are in the plan are consistent</b></p> <p>18 <b>with the settlements that have been reached with</b></p> <p>19 <b>the retiree committee and the retirement systems.</b></p> <p>20 Q. For the first 10 years, you said?</p> <p>21 <b>A. That is correct. After that, the City</b></p> <p>22 <b>has to -- is on the hook for funding the UAAL that</b></p> <p>23 <b>exists at the end of 2023.</b></p> <p>24 Q. Okay.</p> <p>25 And those contributions will come out of</p>
<p style="text-align: right;">Page 322</p> <p>1 MALHOTRA</p> <p>2 and the State of Michigan; correct?</p> <p>3 <b>A. Yes.</b></p> <p>4 Q. And then beginning in 2023, the City is</p> <p>5 obligated to start contributing to those claim</p> <p>6 holders; right?</p> <p>7 <b>A. The City is making some contributions</b></p> <p>8 <b>even prior to 2023 to the GRS. But post 2023, the</b></p> <p>9 <b>City has to -- is responsible for the amortization</b></p> <p>10 <b>of the UAAL that exists at 2023.</b></p> <p>11 Q. And can you explain what the UAAL is.</p> <p>12 <b>A. I'm sorry. I'm sorry. Let me just --</b></p> <p>13 <b>in addition -- the City is responsible for the</b></p> <p>14 <b>amounts after 2023. In addition to, there are</b></p> <p>15 <b>still some proceeds that are going to continue to</b></p> <p>16 <b>come from third parties in the second decade that</b></p> <p>17 <b>will be going to pensions. So I just wanted to</b></p> <p>18 <b>make that clear.</b></p> <p>19 Q. Understood.</p> <p>20 You mentioned the phrase "UAAL." Can</p> <p>21 you please explain what that means.</p> <p>22 <b>A. It's the unfunded actuarial assumed</b></p> <p>23 <b>liability.</b></p> <p>24 Q. Do your projections rely on an</p> <p>25 assumption as to what the UAAL will be going</p>	<p style="text-align: right;">Page 324</p> <p>1 MALHOTRA</p> <p>2 the general fund; correct?</p> <p>3 <b>A. I'm sorry. Which contributions?</b></p> <p>4 Q. I'm sorry. The City contributions to</p> <p>5 the pension to fund the UAAL after 2023 will come</p> <p>6 out of the general fund; correct?</p> <p>7 <b>A. The City contributions after 2023 in</b></p> <p>8 <b>addition to the third-party funding that is</b></p> <p>9 <b>available for the City will come from the general</b></p> <p>10 <b>fund.</b></p> <p>11 Q. Have you analyzed the -- have you</p> <p>12 prepared alternative forecasts in a scenario where</p> <p>13 the UAAL is greater than you've projected in the</p> <p>14 existing forecasts as a result of the pension</p> <p>15 funds having to disgorge the proceeds of the COPs</p> <p>16 transaction?</p> <p>17 <b>A. Could you ask me that again. It's a</b></p> <p>18 <b>long question, and I'm tired.</b></p> <p>19 Q. I understand.</p> <p>20 You testified earlier that you've run</p> <p>21 your projections, changing the assumptions and --</p> <p>22 you've run them, I think you said, lots of times</p> <p>23 using different assumptions plugged into the</p> <p>24 model; correct?</p> <p>25 <b>A. That's right.</b></p>

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1 **MALHOTRA**

2 Q. Okay. Have you ever run an alternative

3 scenario where you've changed the assumption for

4 the UAAL and the basis for that change is a

5 disgorgement by the pension plans of the proceeds

6 of the COPs transactions?

7 **A. I have not run a scenario like that.**

8 Q. Why not?

9 **A. We have not been requested to run that**

10 **scenario.**

11 Q. Do you know why you've not been

12 requested?

13 **A. No.**

14 Q. Do you -- what do you think would happen

15 in that type of a scenario?

16 MR. STEWART: Objection.

17 THE WITNESS: I don't want to speculate.

18 I would have to spend a lot of time thinking

19 through that.

20 BY MS. DiBLASI:

21 Q. Do you have even a directional sense for

22 whether the City in that scenario would be able to

23 fund its pension contribution obligations?

24 **A. Pension contributions as of when?**

25 Q. Beginning in 2023.

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1 **MALHOTRA**

2 **A. If the UAAL at the end of 2023 were**

3 **higher than what we have currently estimated based**

4 **on the information from Milliman, based on the**

5 **same assumptions, the amount of funding required**

6 **from the City would be higher.**

7 Q. Would the City be able to pay that

8 higher amount?

9 **A. What higher amount?**

10 Q. What you've just described, a situation

11 where the UAAL is higher beginning in 2023; and,

12 therefore, the City's contributions are higher

13 than you've currently forecasted.

14 **A. It depends on how much higher.**

15 Q. You testified earlier about the -- I

16 think you referred to it as the base-case scenario

17 in your 10-year projections. Do you recall that?

18 Do you know what I'm talking about when I refer to

19 the base-case scenario?

20 **A. Yes, I know what you're talking about.**

21 Q. Okay. And am I correct in understanding

22 that this base-case scenario shows the forecast

23 for the general fund for the next 10 years,

24 assuming that the City pays all of its projected

25 operating expenses as well as the legacy

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1 **MALHOTRA**

2 expenditures?

3 **A. That's -- that's correct, based on the**

4 **assumptions of the legacy expenditures that were**

5 **in there and the reinvestment costs are added on**

6 **separately, that those -- those were the broad**

7 **assumptions.**

8 Q. The assumptions for the legacy

9 expenditures in the base-case scenario are the

10 full amount of those legacy costs; correct?

11 **A. I would have to look at each one**

12 **individually. But for OPEB, it's the**

13 **unrestructured costs, for instance, and the same**

14 **thing for the COPs. Excuse me.**

15 **There were some varying assumptions on**

16 **the pension, is -- were the assumptions for the**

17 **legacy liabilities.**

18 Q. Okay. So just to be clear -- and I

19 think you used the word "unrestructured." They're

20 the unrestructured, nonrestructured legacy

21 obligations?

22 **A. Yes, that is generally correct. Like I**

23 **said, there have been some changes for pension.**

24 **But most -- I would say predominantly those costs**

25 **were the pre-bankruptcy filing run rate.**

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1 **MALHOTRA**

2 Q. Have you run an alternative base-case

3 scenario -- excuse me. Let me restart.

4 Your base-case scenario assumes that the

5 City pays those legacy expenditures as in when

6 they come due; correct?

7 **A. Yes.**

8 Q. Have you run an alternative base-case

9 scenario where you assume the full amount of those

10 same legacy expenditures are owed but you make

11 different assumptions about the timing for the

12 City's payments of those legacy expenditures?

13 **A. No.**

14 Q. Why not?

15 **A. We haven't been asked to do so, and**

16 **it's -- it's similar to what the City has been**

17 **doing historically, is pushing off not making**

18 **legacy payments when they come due in order to**

19 **fund operations.**

20 Q. So you haven't run an alternative

21 base-case scenario where the City for some period

22 was forbearing from paying some portion of those

23 legacy expenditures? Correct?

24 **A. Not that I can recall. And things like**

25 **pension, if the City is not contributing towards**

Pages 325 to 328

<p style="text-align: right;">Page 329</p> <p>1 MALHOTRA</p> <p>2 pension, it's just making a situation worse,</p> <p>3 because the plans continue to deplete assets and</p> <p>4 the position of the funds continues to get worse</p> <p>5 and worse.</p> <p>6 Q. Does your base-case scenario include any</p> <p>7 assumptions regarding asset sales by the City?</p> <p>8 A. Not -- I mean, just things like a</p> <p>9 building and the typical asset sales that continue</p> <p>10 in normal course, but nothing substantive like</p> <p>11 DWSD or the parking system.</p> <p>12 Q. How about art?</p> <p>13 A. No.</p> <p>14 Q. Have you run alternative versions of the</p> <p>15 base-case scenario that include an assumption</p> <p>16 regarding a sale of DWSD or parking or art?</p> <p>17 A. We have not run a scenario with parking</p> <p>18 or art.</p> <p>19 Regarding DWSD, we did run a scenario a</p> <p>20 long time ago -- and I can't remember when -- or a</p> <p>21 few months ago, in which we were looking at a DWSD</p> <p>22 lease scenario versus not. So that's the only</p> <p>23 thing that comes to mind for DWSD.</p> <p>24 Q. In the 40-year projections, you</p> <p>25 summarize the hypothetical distributions to</p>	<p style="text-align: right;">Page 331</p> <p>1 MALHOTRA</p> <p>2 So I'm just making sure we're on the</p> <p>3 same page here.</p> <p>4 Have you run an alternative 40-year</p> <p>5 forecast that provided for a different treatment</p> <p>6 of the art than what is currently contemplated by</p> <p>7 what's referred to as the grand bargain?</p> <p>8 A. No.</p> <p>9 Q. Why not?</p> <p>10 A. We weren't asked to do so.</p> <p>11 Q. Do you know why you were not asked to do</p> <p>12 so?</p> <p>13 A. No.</p> <p>14 Q. Have you ever considered the impact on</p> <p>15 the City's revenues if the DIA museum was closed?</p> <p>16 A. No.</p> <p>17 Q. Have you ever considered the impact on</p> <p>18 the City's revenues if the DIA art collection was</p> <p>19 sold?</p> <p>20 A. No.</p> <p>21 Q. Have you ever considered the impact on</p> <p>22 the City's revenues if the art collection was</p> <p>23 removed from the City of Detroit?</p> <p>24 A. No.</p> <p>25 Q. Earlier you testified in response to one</p>
<p style="text-align: right;">Page 330</p> <p>1 MALHOTRA</p> <p>2 creditors. And you've included a present-value</p> <p>3 calculation using a 5 percent discount rate;</p> <p>4 correct?</p> <p>5 A. That is correct.</p> <p>6 Q. What's the basis for using 5 percent?</p> <p>7 A. We looked at a couple of items in terms</p> <p>8 of what the average interest rate was on the LTGO</p> <p>9 debt outstanding of the City; looked at the</p> <p>10 long-term interest rates on AA-rated municipal</p> <p>11 bonds; and then had discussions with the Miller</p> <p>12 Buckfire team to ascertain whether they were</p> <p>13 reasonable or not.</p> <p>14 Q. Will you be testifying about the -- as</p> <p>15 an expert about the reasonableness of that</p> <p>16 5 percent discount rate?</p> <p>17 A. I don't know. I would have to check,</p> <p>18 but I've had discussions with Ken Buckfire and Jim</p> <p>19 Doak on that, so I would have to go back and</p> <p>20 check.</p> <p>21 Q. We spoke previously about alternative</p> <p>22 formulations of the base-case scenario. I now</p> <p>23 want to shift the focus a little bit and talk</p> <p>24 about potential alternative versions of the</p> <p>25 40-year forecast.</p>	<p style="text-align: right;">Page 332</p> <p>1 MALHOTRA</p> <p>2 of Mr. Smith's questions about your expert report</p> <p>3 that if the City reaches more settlements, you</p> <p>4 expect to update your forecast, is that correct?</p> <p>5 A. Yes; if the settlements change the</p> <p>6 forecast in any way.</p> <p>7 Q. Putting that aside, is there any</p> <p>8 additional work or changes that you expect to make</p> <p>9 to your forecasts?</p> <p>10 A. Not as of yet that comes to mind. We do</p> <p>11 not have an updated version since the July 2nd</p> <p>12 update.</p> <p>13 Q. A few minutes ago we were talking about</p> <p>14 alternative base-case scenarios where you assumed</p> <p>15 different treatment of assets, and you testified</p> <p>16 that you did run an alternative scenario where you</p> <p>17 assumed that there was a lease for DWSD.</p> <p>18 Do you recall that?</p> <p>19 A. Yes. It was done -- I don't know if it</p> <p>20 was just the base-case scenario or if it was a</p> <p>21 base-case including the restructuring scenario.</p> <p>22 And my recollection is it was a base case plus the</p> <p>23 restructuring investments if what could -- what</p> <p>24 could potentially happen if there was a DWSD</p> <p>25 transaction.</p>

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<p style="text-align: right;">Page 333</p> <p>1                   <b>MALHOTRA</b></p> <p>2           Q. How much annual revenue did you assume</p> <p>3 could be derived from that DWSD leasing</p> <p>4 transaction?</p> <p>5           <b>A. This is a few months ago. I think at</b></p> <p>6 <b>that point in time the scenario was roughly a</b></p> <p>7 <b>\$47 million lease payment annually, but I would</b></p> <p>8 <b>have to go back and check.</b></p> <p>9           Q. Do you know if those -- if that</p> <p>10 alternative scenario was produced?</p> <p>11           <b>A. I believe it would have been produced.</b></p> <p>12 <b>I don't know. I don't -- I haven't seen the few</b></p> <p>13 <b>documents that have been produced. But my guess</b></p> <p>14 <b>is they were circulated with the advisers</b></p> <p>15 <b>potentially, but I have to go back and look.</b></p> <p>16           MS. DiBLASI: Geoff, we'll check. And</p> <p>17 if we're not able to find it, we'll come back</p> <p>18 to you.</p> <p>19           MR. STEWART: Give me a call.</p> <p>20           MS. DiBLASI: Just one moment, please.</p> <p>21 BY MS. DiBLASI:</p> <p>22           Q. Do you think that upon emergence from</p> <p>23 the Chapter 9 bankruptcy case, Detroit will be</p> <p>24 AA-rated -- will be a AA-rated credit?</p> <p>25           <b>A. I do not know. I think that that's</b></p>	<p style="text-align: right;">Page 335</p> <p>1                   <b>MALHOTRA</b></p> <p>2                   <b>C E R T I F I C A T I O N</b></p> <p>3           I hereby certify that I have read the</p> <p>4 foregoing transcript of my deposition testimony,</p> <p>5 and that my answers to the questions propounded,</p> <p>6 with the attached corrections or changes, if any,</p> <p>7 are true and correct.</p> <p>8</p> <p>9 -----</p> <p>10                   GAURAV MALHOTRA</p> <p>11</p> <p>12</p> <p>13</p> <p>14</p> <p>15</p> <p>16</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21</p> <p>22</p> <p>23</p> <p>24</p> <p>25</p>
<p style="text-align: right;">Page 334</p> <p>1                   <b>MALHOTRA</b></p> <p>2 <b>something I would let Ken respond to.</b></p> <p>3           Q. And when you considered the</p> <p>4 appropriateness of a 5 percent discount rate for</p> <p>5 present-valuing creditor distributions, did you</p> <p>6 look at the LTGO interest rates or did you look at</p> <p>7 their yields?</p> <p>8           <b>A. I can go back and check. I thought we</b></p> <p>9 <b>looked at the LTGO interest rates.</b></p> <p>10           Q. Is the B note an LTGO bond?</p> <p>11           <b>A. That's -- I cannot say. I don't think</b></p> <p>12 <b>it's an LTGO bond.</b></p> <p>13           MS. DiBLASI: I have nothing further.</p> <p>14           MR. STEWART: Anyone on the phone?</p> <p>15           MS. HUNGER: Does anyone on the phone</p> <p>16 have any questions?</p> <p>17           MS. DiBLASI: We're done.</p> <p>18           MR. STEWART: I guess you're done.</p> <p>19           THE VIDEOGRAPHER: This concludes the</p> <p>20 video deposition at 5:15 p.m. Going off the</p> <p>21 record.</p> <p>22           (Videotaped deposition concluded at</p> <p>23 5:15 p.m.)</p> <p>24</p> <p>25</p>	<p style="text-align: right;">Page 336</p> <p>1                   <b>MALHOTRA</b></p> <p>2                   <b>CERTIFICATE OF SHORTHAND REPORTER</b></p> <p>3</p> <p>4           I, Gail Inghram Verbano, Registered</p> <p>5 Diplomat Reporter, Certified Realtime Reporter,</p> <p>6 Certified Shorthand Reporter (CA) and Notary</p> <p>7 Public, the officer before whom the foregoing</p> <p>8 proceedings were taken, do hereby certify that the</p> <p>9 foregoing transcript is a true and correct record</p> <p>10 of the proceedings; that said proceedings were</p> <p>11 taken by me stenographically and thereafter</p> <p>12 reduced to typewriting under my supervision; and</p> <p>13 that I am neither counsel for, related to, nor</p> <p>14 employed by any of the parties to this case and</p> <p>15 have no interest, financial or otherwise, in its</p> <p>16 outcome.</p> <p>17</p> <p>18</p> <p>19</p> <p>20</p> <p>21 _____</p> <p>22                   Gail Inghram Verbano, CSR, RDR, CRR</p> <p>23                   CA-CSR No. 8635</p> <p>24</p> <p>25</p>

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